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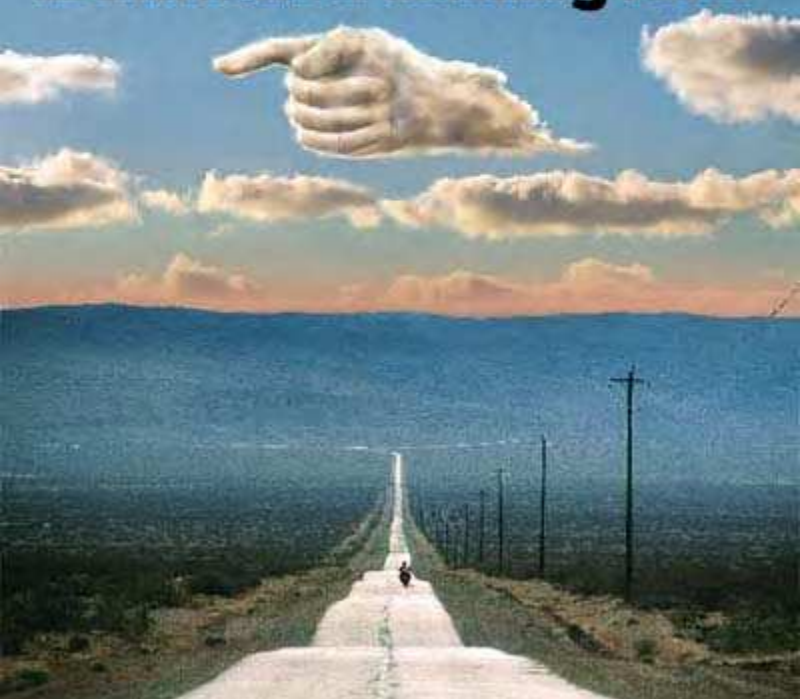

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Print Edition August 11th 2007

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America is probably turning left—but not in the way many foreigners (and some Americans) hope: leader

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Politics this week

Aug 9th 2007
From The Economist print edition

North and **South Korea** announced that South Korea's president, Roh Moo-hyun, will travel to Pyongyang later this month for a meeting with North Korea's leader, Kim Jong Il. It will be the first such summit since 2000, and only the second the two countries have ever held. See article

Pakistan's president, General Pervez Musharraf, contemplated imposing a state of emergency. His government cited the threat from Islamist extremists. But critics say he wants to curb the power of the judiciary. See article

After unusually severe **monsoon flooding** in South Asia, the United Nations gave warning that, with 28m people directly affected, millions faced risks to their health from a lack of clean water. See article

AP

In **Timor-Leste**, President José Ramos-Horta invited Xanana Gusmão, his predecessor and a hero of the resistance to Indonesian rule, to become prime minister. Fretilin, the outgoing ruling party and still the largest force in parliament, could not forge a majority coalition following elections in June. It rejected the president's decision as illegal. See article

With a televised extravaganza in Tiananmen Square, China's government celebrated the beginning of the one-year countdown to next year's **Beijing Olympics**. The date was also marked by protests from Tibetans, journalists and dissidents. Meanwhile, concerns were raised about the potential effects of the city's choking air pollution on athletes. See article

The upper house of **Japan's** Diet (parliament) named as its president Satsuki Eda of the Democratic Party of Japan, following the defeat of the Liberal Democratic Party in elections last month. It is the first time an opposition party has taken control of the upper house since the LDP came to power in 1955.

Zoologists failed to find a Yangtze River **dolphin** during a survey of the creature's historic range, the first likely extinction of a large vertebrate in 50 years. Other scientists discovered a species of bat, rodent, two types of shrews and two new frogs in the Democratic Republic of Congo.

On the brink of collapse

Poland's government wobbled again. Self-Defence, a junior coalition partner, said it would pull out of the coalition with the ruling Law and Justice Party. Meanwhile, the Law and Justice prime minister, Jaroslaw Kaczynski, sacked the interior minister. It was suggested that an early election might be on the cards.

Georgia complained volubly about a **Russian missile** that it said had been dropped by Russian aircraft into a field near the breakaway Georgian republic of South Ossetia. The Russians said the Georgians must have dropped the bomb themselves. See article

Turkey's prime minister, Recep Tayyip Erdogan, met his Iraqi counterpart, Nuri al-Maliki, in Ankara, and secured Mr Maliki's agreement to do more to uproot Kurdish PKK terrorists from northern Iraq. Yet since Mr Maliki has little power in northern Iraq, the Turkish army is still pressing to invade and do the job itself.

AFP

A labour court halted a planned national rail strike in **Germany**, on the ground that it would be disruptive to holiday-makers. But the threat of a strike over rail-workers' claim for a 31% pay rise remains.

Divided they fall

In **Lebanon**, pro- and anti-government parties each claimed wins in a by-election to fill two parliamentary seats left vacant by political assassinations over the past year. The more hotly contested, in a largely Christian district, saw the pro-government former president, Amin Gemayel, lose by a hair to a challenger from a party allied to Hizbullah, a result that underlined divisions among Lebanon's Christians without strengthening either side.

Five **Iraqi** MPs announced a boycott of cabinet meetings, leaving the national unity government without any Sunni members, further deepening the political crisis in the country. The ministers blamed what they called the sectarian favouritism of the Shia-led government.

Most of **Darfur's** rebel groups agreed on a common negotiating front at a meeting in Tanzania, and now want full peace talks with the Sudanese government within the next few months. However, one of the key rebel leaders, of the majority faction of the Sudan Liberation Movement, refused to attend, provoking fears that, as in the past, any peace agreement will quickly unravel.

Measure for measure

George Bush signed a bill that authorises and expands the American government's ability to eavesdrop on its citizens. The **wiretapping programme** caused a furore when it came to light in late 2005, but the recent legislation passed the Senate with the support of 16 Democrats. Civil-liberty groups expressed outrage.

Congress passed a number of other measures in a frenetic session to wrap up business before the August recess. The legislation included billions of dollars in tax breaks and incentives for green energy, paid for in part by $16 billion in new taxes on oil companies. The bills will be reconciled when Congress returns.

A federal judge in Los Angeles issued an injunction preventing the navy from using high-powered sonar in training exercises off the coast of **southern California**. Environmentalists are arguing that the sonar can cause whales to beach themselves and harms other marine animals.

Drugs co-operation

Police in Brazil arrested Juan Carlos Ramírez, a Colombian described by the United States government as one of the world's top **drug traffickers**. Meanwhile, the Bush administration was reported to be working on a large-scale aid package to help Mexico's government fight drugs.

In a boost for **Mexico's** president, Felipe Calderón, his National Action Party held on to power in an election for governor of Baja California, defeating a challenge from Jorge Hank, a representative of the old guard of the formerly ruling Institutional Revolutionary Party.

Notimex

Daniel Ortega, **Nicaragua's** president, announced that Iran will build a hydroelectric project costing $120m in his country, and will help to finance a new port and 10,000 houses.

Canada's prime minister, Stephen Harper, visited the **Arctic** to assert his country's sovereignty claims in the area. A Russian team recently planted a flag below the surface of the North Pole.

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Business this week

Aug 9th 2007
From The Economist print edition

Chrysler appointed Robert Nardelli as its chief executive. When Mr Nardelli left his previous job, running Home Depot, a retailer, earlier this year, his reward was a severance package worth no less than $210m. The carmaker is under new ownership as well as a new boss. Cerberus Capital Management, a private-equity firm, completed the purchase of an 80% stake from Daimler.

Bear Stearns made some management changes following the meltdown of two of its hedge funds, which precipitated the recent crisis in the credit markets. Warren Spector, who headed the investment bank's capital-market operations and was tipped to become the firm's next boss, stepped down. Bear Stearns's share price, which has tumbled over the past month, rose after the announcement.

Virgin coast to coast

Virgin America began its first regular flights, from New York and Los Angeles to its hub in San Francisco, after three years of wrangling over the status of its foreign ownership. The low-cost domestic carrier, partly backed by Sir Richard Branson, will eventually fly to other cities, including Washington, DC.

Japan's Supreme Court turned down an appeal by **Steel Partners**, an American investment fund, against a poison pill that diluted its stake in **Bull-Dog Sauce**. The fund had argued that the tactic was discriminatory. The case is seen as a test of Japan's openness to foreign investors. Steel Partners said it would press ahead with its takeover bid.

A court in India rejected a challenge to the country's patent laws by **Novartis**. The Swiss drugmaker's patent for a modified cancer medicine was disallowed in 2006. It claimed that India had broken World Trade Organisation regulations on intellectual-property rights, but the court said that the WTO was the best place to decide such matters. The ruling was hailed as a victory by public-health groups such as Médecins Sans Frontières, which led the opposition to Novartis's suit, that rely on cheaper generic drugs produced in India.

Global ambitions

Lenovo, a maker of personal computers, indicated it was interested in buying **Packard Bell**, which mostly sells computers in western Europe. A deal, if successful, would allow Lenovo to expand its operations outside its native China—where it has around one-third of the market—and North America.

It emerged that General Motors will end its **sponsorship** of the US Olympic Committee after the Beijing games next year. The carmaker has backed America's Olympic team in some form since 1984, giving it the right to use the Olympic symbol in its advertising, but it is rethinking its marketing strategy.

Warner Music's share price fell to a new low after it reported a quarterly loss and a drop in revenue. The company is trying to adapt to an industry-wide slump in CD sales, but backed away recently from making a bid for EMI when EMI was in the process of being bought by a private-equity firm. Both music companies have considered merging several times in the past.

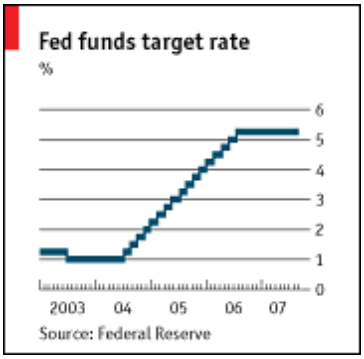
Greg Reyes, the former chief executive of Brocade Communications Systems, was convicted of securities fraud in the first criminal case that went to trial stemming from the recent corporate scandals surrounding the granting of **backdated stock options**.

Vodafone decided not to exercise a put option that would have allowed it to sell up to $10 billion-worth of shares in Verizon Wireless. At its annual meeting last month it saw off a dissident shareholder's proposal that would have forced it to get rid of its entire 45% stake in the venture, worth perhaps $50 billion. Vodafone insists that its holding in the American wireless operator will result in greater value to investors over the long term.

Trump Entertainment Resorts said its loss in the second quarter had more than doubled compared with a year ago. The company (Donald Trump is its chairman) runs three casinos in Atlantic City that are facing competition from new gaming facilities in Pennsylvania and New York. Its share price has fallen by 68% since last November. Nevertheless, investors decided to take a gamble on the firm's future and its share price surged after the release of its earnings.

Looking for a way down

America's Federal Reserve left the **federal funds rate** unchanged at 5.25%, where it has been since June 2006. Hopes that the Fed would pave the way for a cut were firmly dashed, although financial markets continued to think a quarter-point cut likely by the end of the year. The central bank noted that the markets had been unsettled but said once again that inflation remained its chief concern. See article



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KAL's cartoon

Aug 9th 2007
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American politics

Is America turning left?

Aug 9th 2007
From The Economist print edition

Probably—but not in the way many foreigners (and some Americans) hope

Getty Images

FOR George Bush, the presidency is becoming a tragic tale of unintended consequences. In foreign policy, the man who sought to transform Iraq, the Middle East and America's reputation has indeed had revolutionary effects, though not the ones he was aiming for. Now something similar seems to be happening in domestic politics. The most conservative president in recent history, a man who sought to turn his victories of 2000 and 2004 into a Republican hegemony, may well end up driving the Western world's most impressive political machine off a cliff.

That machine has put Republicans in the White House in seven of the past ten contests. At times it has seemed as if the Democrats (oddly, given their status as the less Godly party) have had to rely on divine intervention to get elected. Watergate helped Jimmy Carter in 1976, just as the end of the cold war and Ross Perot's disruptive third-party campaign helped Bill Clinton in 1992. Better organised and more intellectually inventive than their “liberal” rivals, American conservatives have controlled the agenda even when they have lost: Mr Clinton is best remembered for balancing the budget and passing welfare reform, both conservative achievements. In a country where one in three people see themselves as conservatives (against one in five as liberals) and where the South and West have grown far more quickly than the liberal north-east, it is easy to see why Mr Bush and his strategist, Karl Rove, dreamed of banishing Democrats from power for a generation.

Now they would settle for a lot less. Having recaptured Congress last year, the Democrats are on course to retake the presidency in 2008. Only one Republican, Rudy Giuliani, looks competitive in the polls, and his campaign is less slick than those of Hillary Clinton and Barack Obama. Voters now favour generic Democratic candidates over Republican ones by wide margins. Democrats are more trusted even on traditional conservative issues, such as national security, and they have opened up a wide gap among the young, among independents and among Latinos (see article).

For this, he is not guilty

The easy scapegoat is Mr Bush himself. During his presidency, the words Katrina, Rumsfeld, Abramoff, Guantánamo and Libby have become shorthand for incompetence, cronyism or extremism. Indeed, the failings of Mr Bush's coterie are oddly reassuring for some conservatives: once he has gone, they can regroup, as they did after his father was ousted in 1992.

Yet this President Bush is not a good scapegoat. Rather than betraying the right, he has given it virtually

everything it craved, from humongous tax cuts to conservative judges. Many of the worst errors were championed by conservative constituencies. Some of the arrogance in foreign policy stems from the armchair warriors of neoconservatism; the ill-fated attempt to “save” the life of the severely brain-damaged Terri Schiavo was driven by the Christian right. Even Mr Bush's apparently oxymoronic trust in “big-government conservatism” is shared in practice by most Republicans in Congress.

From this perspective, the worrying parallel for the right is not 1992 but the liberal overreach of the 1960s. By embracing leftish causes that were too extreme for the American mainstream—from unfettered abortion to affirmative action—the Democrats cast themselves into the political wilderness. Now the American people seem to be reacting to conservative over-reach by turning left. More want universal health insurance; more distrust force as a way to bring about peace; more like greenery; ever more dislike intolerance on social issues.

Be careful what you wish for

So some sort of shift seems to be under way. Would it be a change for the better? *The Economist* has never made any secret of its preference for the Republican Party's individualistic “western” wing rather than the moralistic “southern” one that Mr Bush has come to typify. It is hard to imagine Ronald Reagan sponsoring a federal amendment banning gay marriage or limiting federal funding for stem-cell research. Yet Mr Bush's departure hardly guarantees a move back to the centre. Social liberals like Mr Giuliani and Arnold Schwarzenegger are in a minority on the right. On the one issue where Mr Bush fought the intolerant wing of his party, immigration, the nativists won—and perhaps lost the Latino vote for a generation.

In terms of foreign policy, America's allies, especially in Europe, would also be unwise to start celebrating, for two reasons. First, some of the changes that would stem from a more Democratic America would be unwelcome. The Democrats are moving to the left not just on health care, but also on trade; and a more protectionist America would soon make the world's poor regret Mr Bush's passing. Similarly, many Europeans may yearn for a less interventionist America; but an isolationist superpower could be much more frightening.

Second, America, even if it shifts to the left, will still be a conservative force on the international stage. Mrs Clinton might be portrayed as a communist on talk radio in Kansas, but set her alongside France's Nicolas Sarkozy, Germany's Angela Merkel, Britain's David Cameron or any other supposed European conservative, and on virtually every significant issue Mrs Clinton is the more right-wing. She also mentions God more often than the average European bishop. As for foreign policy, the main Democratic candidates are equally staunch in their support of Israel; none of them has ruled out attacking Iran; Mr Obama might take a shot at Pakistan; and few of them want to cede power to multilateral organisations.

One finding that stands out in the polls is that most Americans distrust government strongly. Forty years ago they turned against a leftish elite trying to boss them around; now they have had to endure a right-wing version. In democracies political revolutions usually become obvious only in retrospect. In 1968, with America stuck in another bruising war, few liberals saw Richard Nixon's southern strategy as part of a long-term turn to the right. All that was clear then was that most Americans urgently wanted a change of direction. That is also true today.

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The Koreas

Mr Kim has the neighbours in

Aug 9th 2007
From The Economist print edition

By all means sup with Kim Jong Il. But use a long spoon—and don't spend the night

AP

Get article background

IF YOU don't entertain much, your guests may be unreasonably chuffed when you do ask them round. Kim Jong Il, the ruler of North Korea, must recall the euphoria he helped generate in South Korea seven years ago when he met its then president, Kim Dae-jung, for the first and only summit between the two countries. Having waited long enough for his invitation to regain its scarcity value, the tousle-haired dictator is at it again.

As before, the outside world has nothing to lose and much to gain from hearing what Mr Kim has to say—even more so since in the interim he has acquired a few nuclear weapons. But the South's current president, Roh Moo-hyun, would be well-advised to play down expectations about his summit with Mr Kim in Pyongyang at the end of the month. The meeting will rekindle dreams of a Korean peninsula free of nuclear weapons and perhaps even reunified as one country. But Mr Kim's only aim is to keep his dreadful regime in power.

Even so, the moment is more propitious than for some years for achieving the limited goals a summit should set itself: of easing tensions on the peninsula, where the war of 1950-53 has never formally ended (just this week seemingly pointless gunfire was exchanged across the border); and of coaxing North Korea out of isolation. In February, after talks between the two Koreas, America, China, Japan and Russia, Mr Kim agreed to close down his plutonium-producing nuclear reactor at Yongbyon and some other plants in exchange for international aid in the form of fuel oil. Long stalled by a squabble over about $25m of North Korean funds frozen in a bank in Macau, that deal is at last moving. Last month the nuclear plants were closed down—if not yet irreversibly. The International Atomic Energy Agency praised this co-operation. The six-country talks resumed, meaning their five working groups—covering, for example, denuclearisation and normalising relations with America and Japan—also start work again.

It is far too early, however, to believe that North Korea is really ready to come in from the cold. Mr Kim's outbreak of hospitality may stem from two cynical political calculations. He knows that a visit to Pyongyang, giving Mr Roh something to show for his conciliatory approach to North Korea, will help his standing at home. Mr Roh's term ends in December, and polls suggest that the opposition—which favours a harder line—will win the presidential election. Not for the first time, Mr Kim may want to meddle in the South's politics.

No time for another Mulligan

Second, Mr Kim's real skill—overshadowing even his fabled golfing talents (an 18-hole course in 19 strokes)—lies in sowing dissension among his negotiating partners. The unity of the other five countries in dealing with Pyongyang is a rickety structure built of conflicting aims. For obvious reasons, South Korea, occupying the now-rich half of a country arbitrarily sliced in two by a bloody war, is the softest touch of the five. Japan, outraged at the abduction by North Korea of Japanese citizens in the 1970s and 1980s, hangs tougher. China, Mr Kim's only foreign friend, wants to avoid the collapse of his government and the flood of refugees it might bring. America, too, does not want the region to become another global crisis. But it badly wants to stop Mr Kim from making bombs.

North Korea's regime, despite its manifest failures (even to provide enough to eat), has survived in the cracks in the international system: the Sino-Soviet split; the suspicion between America and China; Seoul's fraught relations with Tokyo. The most important message Mr Roh can take to Pyongyang is that those cracks have narrowed, and no amount of wheedling or bluster from Mr Kim will allow them to widen.

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America, Israel and the Palestinians

A modest ambition

Aug 9th 2007
From The Economist print edition

What George Bush should do for the Palestinians in the final phase of his presidency

Reuters

Get article background

ON THE principle of better late than never, the energy that George Bush and his secretary of state, Condoleezza Rice, have at last started to devote to peacemaking in Palestine is welcome. After Ms Rice's tour of the region last week comes talk of a peace conference in America in the autumn. The Americans have just promised more economic help for Mahmoud Abbas, the Palestinian president. And this week Ehud Olmert, Israel's prime minister, made a rare trip to Jericho, inside the West Bank, to talk to Mr Abbas about “the establishment of a Palestinian state...as soon as possible”.

Do not expect the man on the Ramallah omnibus to rejoice just yet. Conditions have seldom looked less ripe for peace. Both sides' leaders are fragile and risk averse. Two months ago the Palestinian leadership snapped in half, with Hamas kicking its Fatah rivals out of the Gaza Strip and Fatah's Mr Abbas refusing to have anything to do with “those murderers”. Mr Olmert is at least the prime minister of a functioning government, but thanks to his mishandling of last summer's Lebanon war he is one of the least popular in Israel's memory. That war also buried the big idea—unilateral withdrawal—on which the new Kadima party he inherited from Ariel Sharon was elected. Israelis have since learned in Gaza and Lebanon that when they pull out of occupied territory without a peace deal rockets and fighters pursue them across the border.

Having evacuated all of the Gaza Strip, and with unilateral withdrawal no longer acceptable to its voters, Israel's only remaining option, apart from sitting still, is to negotiate an agreement with Mr Abbas under which it can leave the West Bank and so make room for the independent Palestine that Mr Olmert claims to be impatient to establish. At first glance, this might look easier now that the rejectionists of Hamas have been booted out of the Palestinian Authority, leaving negotiations with Israel in the newly unfettered hands of the moderate Mr Abbas. The truth, as Mr Bush and Ms Rice, as well as Mr Olmert and Mr Abbas, certainly know, is starkly different.

Hamas may be subject to an international diplomatic boycott but it is not out of the picture. No peace deal has much chance of being brokered, let alone of lasting, without its consent. Hamas won last year's legislative elections and remains popular not only in Gaza but also in the West Bank. Nothing in the career of the timorous Mr Abbas suggests that he would dare to make a final deal with Israel that Hamas opposed. Even if he did, Hamas could swiftly sabotage any such peace by mounting violent attacks against Israel or against him.

So long as Hamas remains excluded, expectations of what is achievable at Mr Bush's autumn meeting

had therefore better be modest. And, behind all the speechifying, it seems that they are. The Americans are hoping to coax Mr Olmert and Mr Abbas into some sort of declaration of principles setting out what a two-state solution might look like. They then want the rest of the world, notably including the Arab states, to throw its weight behind the declaration too. Saudi Arabia has hinted that it might participate—provided the meeting had real substance and was not just a photo opportunity designed to help America boost its reputation in its jostle with Iran.

This modest aim may be the most that Mr Bush can realistically have in his presidency's final year and a half. The flaw of the interminable peace process has long been that word “process”. For the past 20 years, as Israeli settlements have continued to spread in the West Bank, Palestinians have come to see negotiations as all process and no destination. By forcing Mr Olmert to give Mr Abbas a clear promise of what and where an independent Palestine will be, the Americans and their Arab partners may be able to restore a modicum of Palestinian enthusiasm. This means writing down some detail on borders (Mr Olmert was reported this week to be offering to leave 90% of the West Bank), refugees and Jerusalem. Since no Israeli prime minister will ever accept the right that Palestinian refugees claim to return to homes now in Israel, Mr Olmert will have to compensate by offering a shared capital in Jerusalem. That would be hellishly controversial in Israel but would play well with the Arab states, and especially the Saudis.

Words and deeds

There may be gestures, too, such as the evacuation of some Israeli outposts. But in the end, a declaration of principles is just a declaration. No grand bargain will be implemented against Hamas's will. Nor, paradoxically, could such a deal be negotiated with Hamas on board—not, at least, while it continues to reject the very principle of permanent peace with Israel.

While Hamas is excluded, the world should avoid the temptation to punish the Palestinians of Gaza economically for their leaders' obduracy (see article). At some point, however, Mr Abbas needs to win Hamas over to an historic compromise with the Jewish state. That will be hard. But it will be a lot easier if America, Israel and the Arab states have endorsed a set of detailed principles showing the Palestinians that they can then expect an independent state worthy of the name.

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British airports

Hell on wings

Aug 9th 2007
From The Economist print edition

Breaking up BAA would not fix all of Heathrow's problems, but it would be a start

AFP

FEAR and loathing at London's main airport has become as much a part of the British summer as strawberries and cream and Wimbledon. Queues at Heathrow are longer, tempers shorter, a third of departing flights are delayed and thousands of bags are lost each day. And that is in a good week. Add a little friction—some rain, or a threatened strike by baggage-handlers or caterers—and things slow further. Add the threat of terrorism (and heightened security checks to prevent it), and the poorly oiled machine grinds almost to a halt.

Heathrow is by no means the rich world's worst airport but it is getting there (see article). This matters, and not just to the passengers forced to endure its grubby, cramped, time-wasting disorganisation. Any country is dependent on the efficiency of its transport links. Trouble at Heathrow drives up the price of doing business in Britain, turns off tourists and makes the bankers, traders and lawyers who have made London the world's foremost financial centre begin to feel footloose.

What then can be done to improve it? Not everything is the fault of BAA (which owns Heathrow, nearby Gatwick and Stansted, and four other airports around Britain). Decades of under-investment and increasing traffic mean that the airport pushes close to 70m passengers through facilities built to handle just 45m a year. For that, Britain's sclerotic planning system is partly to blame. The government recently proposed giving a new body of national planners responsibility for deciding on infrastructure of national importance, which should help.

The need for cumbersome airport checks to thwart terrorism is hardly BAA's fault either. It is up to the government to shorten the lengthening queues at immigration, for instance, by providing more officers. But the firm's tardiness in providing extra staff and moving out lucrative shops to open more space for security lanes has added to the chaos and irritation.

BAA's inability to meet either of these very different challenges stems less from the greed or incompetence of its owners than from the structure of its market and the way it is regulated. Both need radical reform. When London's airports were privatised two decades ago in a bundle, and the Civil Aviation Authority (CAA) given responsibility for capping landing fees and other charges, the goal was to prevent BAA from abusing its market power and ensure that investment flowed from one airport to the next as each filled up. The result, alas, was to increase that market dominance by shielding Heathrow from the competition it would have faced had the airports been spun off to separate owners.

Take a flier

So the news on August 9th that the Competition Commission is considering breaking up BAA is welcome. The monopolist's defenders make two arguments for keeping the status quo. The first is that with two of London's three main airports already operating at full capacity (Stansted has yet to seize up), separate owners would have little reason to compete for business. This seems unlikely: genuine rivals are remarkably adept at finding capacity where none was thought to exist, and at meeting demand in new ways. Prices (and standards) are often set at the margin; and the movement of even a few flights between airports can produce competitive pressure.

As for the other argument—that separate (and perhaps poorer) owners would be slower than BAA in expanding capacity—that too is doubtful. Because BAA controls all three airports, it has languidly added runways and terminals where they were easiest to build, on the assumption that people in time would have no choice but to use them.

But why stop with breaking up BAA? Other countries—Australia and New Zealand, for example—have encouraged competition within airports too. Airlines could own their own terminals; different firms could provide different forms of security checks, some faster and dearer than others. And if the airport owner's hand is weakened, the regulator's can be too. The CAA is already thinking of getting rid of caps on landing fees at Stansted, and an independent Gatwick could easily be deregulated as well. Huge Heathrow, with its proximity to London and vast range of connections, is a tougher candidate, but if it charged too much, traffic would begin to move.

None of these options would solve Heathrow's problems overnight. Plenty of other countries are struggling with decrepit infrastructure—notably America (see article). But in general markets are better at directing investment and at finding the right trade-offs between service and price than even the best-intentioned monopolists and their regulators.

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Language

Plus ça change? Not quite

Aug 9th 2007
From The Economist print edition

Clichés are always tired. Increasingly, they are also wrong

Illustration by Peter Schrank

TECHNOLOGY constantly overtakes language. Recent additions to the Oxford English Dictionary have included po-faced entries for “Google” (the verb), “wiki” and “mash-up”. But most clichés are stubbornly indifferent to such concerns. Indeed, they often act as a linguistic fossil record, preserving objects and behaviour that have long since fallen into petrified obsolescence. Industrious sorts no longer burn the midnight oil. Flashes in the pan are common even if the flintlock muskets that gave rise to them are museum pieces. Colours are still nailed to masts, metal though they now usually are.

In a technological age ever more clichés are being untethered from their origins in this way. People write out plenty of metaphorical cheques, whether blank or bouncing. Many of them are to be found in the post, but fewer in real life (some shops no longer accept them). There is no need to keep your cards close to your chest, or indeed an ace up your sleeve, when so much gambling happens online. Thanks to reviews, awards and celebrity book-club stickers, you can in fact judge a book by its cover. If you carry a mobile phone, write e-mail or post entries on MySpace, being out of sight does not mean being out of mind. And in the age of the iPod, no one can be accused of being unable to carry a tune.

Old assumptions are stranded by other changes too. Currencies fluctuate: the dollar looks less than almighty, at least for the moment. Populations evolve: Tom, Dick and Harry make for an unrepresentative trio of everymen today; Kevin, Chloe and Muhammad would be more accurate. Trade patterns shift: turning down all the tea in China would weigh heavily, to be sure, but the European Union is more impressed by the Chinese production of bras and dressing-gowns. Today's coast is never clear but always strewn with plastic and other detritus. Rare is the athlete who can radiate Olympian calm at a modern-day Olympic games.

Earnest environmental concerns are also starting to flip well-worn phrases on their heads. Putting new wine into old bottles is now to be applauded. Where it was once desirable to trail clouds of glory, they now require emissions credits. Regulators are another threat. Hunting-grounds, happy or not, are fewer in number. Recently shelved plans by the European Commission to get rid of Britain's imperial measures endangered all manner of activities, from exacting a pound of flesh, inching forward and feeling ten feet tall to being miles away.

Being archaic does not always make a cliché redundant. People still jump on bandwagons, read the riot act, burn the candle at both ends and keep irons in fires. As long as its meaning is clear, a saying can be both historic and current.

The trouble comes when technology robs a cliché of its substance as well as its form. When love fades, the jilted may seek consolation in the thought that there are plenty more fish in the sea. But there aren't: the oceans have been plundered. “For everything there is a season” is a phrase with a ring of majestic certainty. But with air-freighted fruit and genetically modified veg, it too is wrong. And if once it was believed that the camera never lied, PhotoShop should have taught that the lens bends the truth as effortlessly as it bends light itself. As for rocket science, not long ago it was held up as the paragon of baffling complexity. Now, as tourists hurtle into space and almost every failed state seems poised to go ballistic, rocket science seems less sophisticated. Proud owners of silicon implants scoff at the notion that beauty is only skin-deep. Among the transgendered, Bob is as likely to be your auntie as your uncle.

The moral of it all? Clichés just aren't what they used to be.

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On Iran, Sarbanes-Oxley, the Royal Navy, English, “The Simpsons”

Aug 9th 2007
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

Higher risks

SIR – Regarding your analysis of Iran's nuclear programme (Special report on Iran, July 21st). Many in the Middle East argue that a region dotted with nuclear weapons would be just as stable as when the Americans and the Soviets engaged in their cold-war rivalry. But the Americans and the Soviets had thousands of miles of geographic separation that gave them a large measure of warning-time prior to a potential enemy attack. This is not the case in the Middle East, where nuclear-armed states would have only a handful of minutes to receive a warning. In times of crises they would come under enormous pressure to use their nuclear weapons first out of fear of losing them to pre-emptive enemy strikes.

Richard Russell
Professor of national security affairs
National Defence University
Washington, DC

SIR – It seems preposterous to engage in nit-picking about whether Mahmoud Ahmadinejad actually uttered the “precise” words “wipe Israel off the map” (“The riddle of Iran”, July 21st). Who cares if he really said, as your report later posits, that Israel would be “removed from the pages of time”. Whether this is a calculated rational move, domestic propaganda or heartfelt belief, we should not devalue the grave dangers this tyranny entails.

Cyrus Ferdowsi
Toronto

SIR – Your caution about what Iran's president actually said is indeed reminiscent of Nikita Khrushchev's boast to “bury” the West, which you mentioned by comparison. But that was also a misunderstanding. A better translation of Khrushchev's conviction would read that the Soviet Union would “be present at the funeral” of the West. This is still assuredly cocky, in a Marxist-determinist sort of way, but only the mistranslation is aggressive. We would do well to remember the difference when considering our next steps on Iran.

Marcus Gibbons
Washington, DC

SIR – If America is sincere about making the Middle East a nuclear arms-free zone it should get Israel to dismantle its undeclared nuclear-weapons programme and sign the Nuclear Non-Proliferation Treaty. In return, America could extend a nuclear umbrella to Israel to put it at ease about nuclear attacks. Only then can America expect to gather wide support from other countries to isolate Iran and force it to abandon the nuclear path it has chosen.

Noor Mohd
Noida, India

SIR – You write about “the riddle of Iran”. I don't see a riddle. I see a religious organisation struggling to maintain its control and domination. I see the mullahs fighting to prevent a Reformation.

Russell Berg
Melrose, Massachusetts

The wrong SOX

SIR – What we have learned from Sarbanes-Oxley, five years after it was signed into law, is that the act created the illusion that the quality of corporate governance could be improved by more regulation and measured by analysing financial statements ("Five years under the thumb", July 28th). As a consequence, thousands of academics are still searching for that elusive correlation between quality of governance and share price.

Trying to measure the quality of governance with publicly available information is comparable to a drunk at night who has lost his car keys and is searching for them under the streetlight, because that's the only area where he can see anything.

The real deficiencies that are apparent when attending board meetings in America and Europe are a lack of understanding of a company's business and an atmosphere in the boardroom that does not invite critical comments or open discussion. These are elements that can neither be regulated nor measured from the outside.

What SOX has brought us is extensive box-ticking in the boardroom, providing a good excuse for dysfunctional boards not to make any substantial changes.

Florian Schilling
Board Consultants International
Frankfurt

Joint force

SIR – The Royal Navy's plans for its aircraft-carriers are about more than just "asserting its position as a leading maritime force" or inter-service arguments about who can best deliver a punch ("Carriers without Harriers", July 21st). The sinking of *HMS Prince of Wales* and *HMS Repulse* during the second world war by Japanese bombers brought home the vulnerability of naval forces that are not protected by air cover. The Falklands would not have been re-taken without the help of carrier-borne aircraft. Without carriers, a navy becomes a coastal defence force, capable of operating effectively only under the protection of land-based aircraft. Naval warfare is fought in three dimensions: below, on, and above the surface. Combatants have to be able to fight in each of those areas.

David Critchley
Winslow, Buckinghamshire

Mind your language

SIR – The "irresistible rise of English" as the dominant language of the European Union fulfils a prediction made to me 12 years ago by the deputy head of a large philanthropic organisation in France (Charlemagne, July 21st). She, however, identified an additional reason. "What I have always admired about English-speakers," she said, "is the way that, faced with someone trying to speak their language, they do their best to understand and encourage".

Her compatriots, she continued, took a different tack. When officials from new member states come to Brussels, they "all have fluent English as their second language but, out of courtesy, will attempt to speak French—and some idiot will always try to correct them."

David Wedgwood
Glasgow

SIR – As a German expat living in Brussels, I have to disagree with the contention that knowing English "breeds complacency" with regard to other languages. Residing in Brussels actually encourages the study of languages. Being able to converse in Dutch with my hairdresser, French with fellow workers, Spanish with the restaurant chef, Swedish with the couple at the next table and a mix of everything with friends not only makes for a rich and interesting life, but expresses European *savoir-vivre—à la bruxelloise* as it were.

Felix Rathje
Brussels

“Ha-ha”

SIR – I was truly shocked to see such a blatant blunder in your review of “The Simpsons Movie” (“Dysfunctional family on the move”, July 28th). Baby Maggie does not break “18 years of silence by speaking her first word”, as you erroneously report. Any true Simpsons fan would know that Maggie's first word was “Daddy”, voiced by Elizabeth Taylor in an episode on television. Maggie has also said “Daddily-doodily” (thanks to Ned Flanders), and emulated her father's “D'oh!” on occasion as well.

James Saksa
Philadelphia

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The American right

Under the weather

Aug 9th 2007 | WASHINGTON, DC
From The Economist print edition

The conservative movement that for a generation has been the source of the Republican Party's strength is in the dumps

Illustration by Kevin Kallaugher

THIRTY years ago Eric Hobsbawm, the dean of Marxist historians, chose as his subject, for the Marx memorial lecture, “The forward march of labour halted?” Things turned out even worse, for his side, than he had expected, thanks in part to the rise of a very American brand of conservatism. But are we now witnessing Mr Hobsbawm's revenge: the forward march of American conservatism halted?

The right has dominated American politics since at least 1980. The Republicans' electoral successes have been striking: five out of seven presidential elections since 1980 and a dramatic seizure of the House in 1994 after 40 years of Democratic rule. Even more striking has been the right's success in making the political weather.

The Republican Party is only the most visible part of the American right. The right's hidden strength lies in its conservative base. America is almost unique in possessing a vibrant conservative movement. Every state boasts organisations fighting in favour of guns and against taxes and abortion. The Christian right can call upon megachurches and Evangelical colleges. Conservatives have also created a formidable counter-establishment of think-tanks and pressure groups.

And many Americans who are not members of the movement happily embrace the label “conservative”. They think of themselves as God-fearing patriots who dislike big government and are tough on crime and national security. In 2004 roughly a third of the voters identified themselves as conservatives; just over 20% identified themselves as “liberal” (as American left-wingers are somewhat strangely called). Conservatives have driven the policy debate on everything from crime to welfare to foreign policy.

Yet today this mighty movement is in deep trouble. Veteran activists are sunk in gloom (“I've never seen conservatives so downright fed up,” says Richard Viguerie, a conservative stalwart). And the other side is cock-a-hoop. Stanley Greenberg, a Democratic pollster, describes the shift from conservatism as “breathtaking”.

The Democrats are well positioned to retake the White House in 2008. True, the Republican front-runner, Rudy Giuliani, a “big tent” Republican who combines liberal views on abortion and gay marriage with stellar credentials as “America's mayor”, is a strong candidate. The Democratic front-runner, Hillary Clinton, suffers from high negatives and a scandal-prone husband. But the Clinton operation looks far more professional than Mr Giuliani's—and he has plenty of scandals of his own.

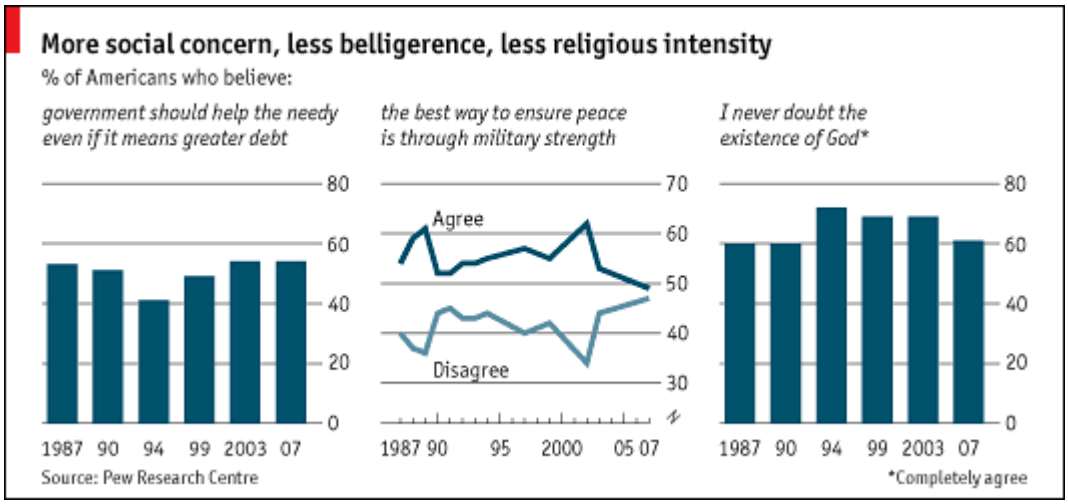
Overall, the Democrats are much more confident: 40% of Republicans believe that the Democrats will

win, but just 12% of Democrats believe that the Republicans will win. They are more motivated: in the second quarter the two leading Democrats raised $60m, against just $32m for the two leading Republicans. And 61% of Democratic primary voters are happy with their choice of candidates, compared with only 36% of Republicans. Generic polls show voters expressing a preference for a Democratic president by a 24-point margin, a gap unheard of since the Watergate era.

The Democrats are also likely to keep Congress. The tide that enabled the party to pick up 31 House seats and six Senate seats in 2006, along with six governorships and 321 state-legislature seats, is still swelling. The Republicans will be defending more vulnerable Senate seats than the Democrats in 2008, and they are losing the race for cash. The public favours Democratic control of Congress by a margin of 10-15 points. Off the record, Republicans use words like “catastrophe” and “Armageddon” to refer to 2008.

The issues that people care about are also tipping the Democrats' way. A Pew Research poll in March discovered growing worry about income inequality combined with growing support for the social safety net. The proportion of Americans who believe that “the government should help the needy even if it means greater debt” has risen from 41% in 1994, at the height of the Republican revolution, to 54% today. The poll also revealed a decline in support for the things that drove the Republican resurgence in the mid-1990s, such as traditional moral values.

Infographics



In 2002 the electorate was equally divided between Democrats and Democratic-leaners (43%) and Republicans and Republican-leaners (43%). Today only 35% align themselves with Republicans, and 50% with Democrats. The Republicans are doing particularly badly among independents (the fastest-growing group in the electorate) and younger voters. The proportion of 18-25-year-olds who identify with the Republican Party has declined from 55% in 1991 to 35% in 2006, according to Pew. Tony Fabrizio, a Republican pollster, notes that the share of Republican voters aged 55 and over has increased from 28% in 1997 to 41% today, whereas the share aged 18-34 has fallen from 25% to 17%. No wonder Ken Mehlman, a former Republican Party chairman who oversaw George Bush's 2004 victory, is now advising hedge funds on how to deal with a Democratic-leaning America.

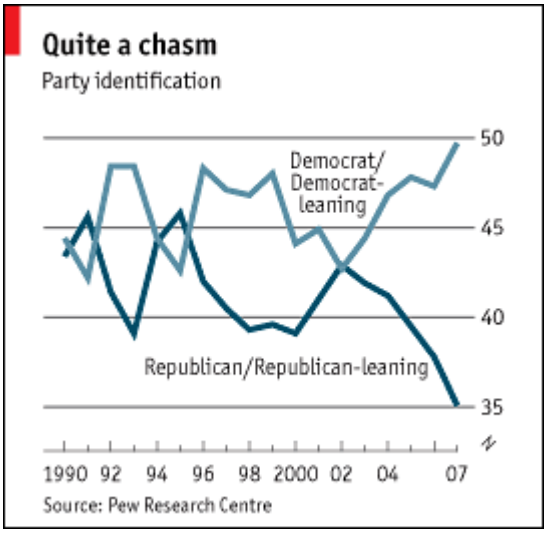
The Republicans have alienated America's fastest-growing electoral block—Hispanics—with their visceral opposition to immigration reform. Nearly 70% of Hispanics voted Democratic in House races in 2006, up from 55% in 2004. That trend is sure to have been solidified by the Republicans' recent scuppering of the McCain-Kennedy immigration bill, in a revolt sodden with xenophobia. Lyndon Johnson once noted that the Democrats' support for civil rights had cost them the South for a generation; the Republican Party's opposition to immigration reform may well have cost it the Hispanic vote for a generation.

Republicans have also whipped up a storm of opposition among middle-of-the-road voters on social issues. The religious right's opposition to abortion has always been an electoral liability: only 30% of voters favour overturning *Roe v Wade*. But in the past few years social conservatives tested people's patience still further over a federal marriage amendment and Terri Schiavo. Fully 72% of Republican voters opposed the Republicans' attempt to use the might of the federal government to keep the severely brain-damaged woman alive. The voters got their revenge in the 2006 mid-term elections—“bloody Tuesday” in the words of Troy Newman, the president of Operation Rescue, an anti-abortion group. Rick Santorum, once the religious right's most prominent champion in the Senate, barely scraped 41% of the vote in Pennsylvania. Ken Blackwell, social conservatism's most prominent black champion, went down to

a humiliating defeat in the race for the Ohio governorship. Social conservatives lost ballot initiatives on everything from abortion to gay marriage.

Infographics

Why the conservative crack-up?



The obvious cause of the right's implosion is the implosion of the Bush presidency. Mr Bush has the worst approval ratings since Jimmy Carter—29% according to *Newsweek* and 31% according to NBC News. Only 19% of Americans think that America is headed in the right direction under Mr Bush. An astonishing 45% of Americans, including 13% of Republicans, support impeaching Mr Bush, according to the American Research Group.

The most obvious cause of the implosion of the Bush presidency is the disaster in Iraq. The Republican Party's biggest advantage over the Democrats has long been on foreign and defence policy. You voted Democratic if you cared about schools and hospitals. But you voted Republican if you cared more about keeping America safe in a dangerous world. September 11th 2001 turbo-charged that advantage. The Republicans used the “war on terror” to roll over the Democrats in elections in 2002 and again in 2004.

But the war in Iraq has buried this vital advantage under a mound of discredited hype (“mission accomplished”) and mind-boggling incompetence. A CBS News/*New York Times* poll found that only 25% of people approved of Mr Bush's handling of the situation in Iraq. An ABC News/*Washington Post* poll found that 63% of respondents did not trust the Bush administration to report honestly about possible threats from other countries. The damage is not limited to the Bush administration: a Rasmussen poll on July 25th-26th found that Mrs Clinton outscores Mr Giuliani as the candidate voters trust most on national security.

Mr Bush has also presided over the biggest expansion in government spending since his fellow Texan, Lyndon Johnson, provoking fury on the right. His prescription-drug benefit was the largest expansion of government entitlements in 40 years. He has increased federal education spending by about 60% and added some 7,000 pages of new federal regulations. Pat Toomey, the head of the Club for Growth, says the conservative base feels “disgust with what appears to be a complete abandonment of limited government.”

Many conservative activists would like to pin the blame on Mr Bush alone—either because he pursued foolish policies (the paleo-conservative version) or because he pursued sensible policies in a cack-handed manner (the neoconservative version). William Buckley, the conservative movement's pope, says that, if Mr Bush were the leader of a parliamentary system, “it would be expected that he would retire or resign.” Bruce Bartlett, a former Reagan-administration economist, accuses him of “betraying” the conservative movement. Other conservatives would like to pin the blame on the Republican Party. “We have to recognise that this was a defeat for Republicans, not for conservatives,” Newt Gingrich, a former Speaker of the House, argued after the 2006 mid-term elections.

In fact, the Republican Party in Congress is just as responsible as Mr Bush for most of the recent troubles. The Republican majority routinely appropriated more spending than the president asked for. It also larded spending bills with as much extra pork as possible. The number of congressional “earmarks” for projects in members' districts increased from 1,300 in 1994, when the Republicans took over Congress, to 14,000 in 2005.

The Republican majority also cheered Mr Bush all the way to Baghdad. Add to this the corruption of congressmen like Tom DeLay, a conservative hero, and the semi-corrupt institutional relationship that the Republicans formed with lobbyists, and you see that Mr Bush was only part of a much bigger problem.

Nor can conservatives claim that Mr Bush is a country-club Republican like his father. He has devoted his energies to giving “the movement” what it wants: the invasion of Iraq for the neoconservatives (who had championed it long before September 11th); tax cuts for business and the small-government conservatives; restricting federal funding for stem-cell research for the social conservatives; and

conservative judges to please every faction.

This desire to pander to the conservative movement is partly to blame for the administration's practical incompetence. Mr Bush outdid previous Republican presidents in recruiting his personnel from the conservative counter-establishment. But this often meant choosing people for their ideological purity rather than their competence or intelligence. Some 150 Bush administration officials were graduates of Pat Robertson's Regent University, including Monica Goodling, who put on such a lamentable performance before a House inquiry into the firing of nine US attorneys. A more pragmatic president would surely have sacked many of the neoconservative ideologues who have made a hash of American foreign policy

The Republicans' problems are creating a civil war on the right about how to dig themselves out of their hole. This is producing some spectacular intellectual fireworks—fireworks that prove there is still a lot of intellectual life in the right. But such internal strife tends to put off the voters. And this civil war has the added problem that, from the point of view of broadening the Republican coalition, the wrong side has won too many important battles, not least on immigration.

One fight is over the size and scope of government. Small-government conservatives accuse Mr Bush of betraying conservatism's core principle: that government is the problem rather than the solution. Big-government conservatives retort that there is only a limited constituency for small government. The general public strongly opposes cutting entitlements. “Anti-government conservatism turns out to be a strange kind of idealism,” argues Michael Gerson, Mr Bush's former speechwriter, “an idealism that strangles mercy.”

A second fight is over social conservatism. Libertarians argue that the Republican Party is too much in the pocket of ageing social conservatives such as James Dobson of Focus on the Family, activists who do not represent the views of common-or-garden Evangelicals let alone middle-of-the-road Americans. Social conservatives retort that they are the people who deliver the votes: if the Republican Party relies only on business conservatives and libertarians, it will be reduced to a rump.

A third fight concerns Mr Bush's foreign policy, particularly his stubborn defence of the Iraq war. Some conservatives predicted that the “war on terror” might take the place of the “war on communism”, both as a glue holding conservatism together and a guarantee of long-term Republican advantage over the Democrats. That happened for a while. But the sustained unrest in Iraq has opened deep divisions on the right—not least between Mr Bush (who rides off into the sunset in January 2009) and politicians who would like to hang around for a bit longer. Senate Republicans are on the verge of a full-scale revolt against the White House.

Dead right?

It is always tempting to read too much into this or that crisis. David Frum predicted doom for his fellow travellers in “Dead Right” just as Mr Gingrich was about to seize control of Congress. Emmett Tyrell described a conservative crack-up only to see the movement come back together.

The Democrats' good fortune is much more the result of a Republican collapse than a Democratic revival. The March Pew poll shows that the proportion of people who express a positive view of the Democratic Party has actually declined by six points since January 2001. It's just that the proportion of people who express a positive view of the Republican Party has declined by 15 points. The Democratic-controlled Congress is even more unpopular than the Bush White House, with the lowest approval rating in 35 years.

Illustration by Kevin Kallaugher

Americans remain sceptical about the Democrats' favourite tool for improving the world—government action. A Democracy Corps poll found that Americans believe by a majority of 57% to 29% that government makes it harder for people to get ahead in life. The same poll found that 83% of people believe that, if the government had more money, it would probably waste it, the highest level of anti-government sentiment in a decade. America is not entering into a new era of liberal activism.

The Democrats have ceded a lot of ground to the conservatives. The party has sidelined liberal groups who oppose the death penalty or want to restrict gun-ownership. The big three Democratic presidential candidates compete with each other to prove how religious they are: Mrs Clinton repeatedly claims that she is a “praying person” who once considered becoming a Methodist minister. The Party put forward anti-abortion candidates in both Colorado and Pennsylvania.

And the conservative movement is at its most deadly as an insurgency. The movement was born during the 1964 Goldwater campaign as a revolt against the liberal establishment. It enjoyed its glory days when it was battling Hillarycare and trying to impeach Bill Clinton. A Clinton presidential nomination would undoubtedly reunite and re-energise the movement. Deeply rooted in gun clubs, anti-tax groups, right-to-life groups and Evangelical churches, American conservatives will never be reduced to the feeble status of their British cousins.

But even when you enter all the qualifications the right's situation is dire. It is a sign of weakness that the conservatives are retreating to their old posture as insurgents, and need a bogeywoman like Mrs Clinton to hold them together.

The Republicans have failed the most important test of any political movement—wielding power successfully. They have botched a war. They have splurged on spending. And they have alienated a huge section of the population. It is now the Democrats' game to win or lose.

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America's creaking infrastructure

A bridge too far gone

Aug 9th 2007 | LOS ANGELES AND MINNEAPOLIS
From The Economist print edition

AP

The spotlight turns to deficiencies everyone would rather ignore

WHETHER driven by grief or curiosity, local people in Minneapolis still congregate on the banks of the Mississippi River to see their collapsed bridge. It is a monumentally strange sight, and more so at night when the floodlights come on. Looking at the twisted beams and the mess of cars, it is hard to believe the death toll is so low—just five bodies have turned up so far, and eight others are missing. Nor, oddly, have the expected traffic jams occurred nearby. That is likely to change next month when schools reopen and students return to the University of Minnesota. What began as a tragedy and turned into a spectacle will linger as a nuisance.

Engineers who scrambled across America to check other bridges with the same steel-truss design are reporting that they appear safe. So too, they say, are most of the 73,784 bridges that, like the one in Minnesota, are classified as “structurally deficient”. The head of California's transport department stressed that he would not fear to cross the state's bridges with his family. Which is reassuring, as far as it goes—yet it entirely misses the point.

The problem with America's infrastructure is not that drivers are in danger of being pitched into rivers. Dramatic events may dominate the news, but the nation's roads and bridges are less perilous than inefficient and decrepit. Enormous sums are being spent just to keep them in a mediocre state, and even more will have to be spent in future. Partly as a result, the new infrastructure needed for a rapidly growing population is not being built fast enough. And America has been slow to find alternative ways of paying for new projects or for rationing the use of existing ones.

How bad is America's infrastructure? The fullest answer comes from the American Society of Civil Engineers, which grades the nation as though it were a schoolchild. Its first report, in 1988, issued three Bs (for aviation, flood defences and drinking water) and one D. All other systems were graded C. In sum, a slow pupil, but not a hopeless one. By 2005 America was a dropout, with no As or Bs, four Cs and ten Ds. Worryingly, the second-best grade went to the nation's bridges.

Americans do not really need such reports to tell them that something is wrong. They feel the problem every time they drive over a pothole (and they often do: some 27% of urban arterial roads were classified as poor in 2005). They sense it as they sit on the tarmac, waiting to take their turn on an overcrowded runway. Last year more than a fifth of American flights arrived more than 15 minutes late—the worst performance for six years. Most of all, they reflect on what has gone wrong as they sit in increasingly long traffic jams. In the ten years beginning in 1995, the number of miles driven has increased by 23%, while the length of the roads has gone up by 2%. The result is as expected.

Most appalling, perhaps, is the cost of maintaining such an indifferent system. Spending on infrastructure has risen steeply since the 1950s, even when inflation and population growth are taken into account (see chart). These days, most of the cash goes towards patching up crumbling stock. Spending on new projects and major renovations dipped in the 1970s and 1980s, but has since risen and is now higher even than in the golden era of highway-building.

The money does not go nearly as far as it did. Alan Soltani of Benham, a civil-engineering firm, reels off a list of reasons why new roads and bridges now cost so much to build. Labour and rights-of-way are far more expensive than in the past. Safety standards are stricter. Roads are wider. The cost of materials has risen steeply, not least because America must compete with countries (such as China) that are investing heavily in infrastructure. The price of structural concrete has gone up by 73% in the past two years alone. As a result, the network is growing only slowly. Between 1960 and 1965 America built 144,000 miles of new highway. Between 2000 and 2005 it added just 59,000 miles.

No state illustrates this pattern of boom, bust and forced boom better than California. In the 1960s it poured money into roads, pipelines and universities, on the assumption that it was the state's manifest destiny to grow. “We've got plenty of money and we've got to do it,” explained Pat Brown, then the governor. The result was a superb education system and a road network that seemed almost miraculous. Reyner Banham, a British architecture critic, judged the intersection of the 10 and the 405 freeways in Los Angeles to be “one of the greater works of Man”.

That intersection now features some of America's greater traffic jams. Thanks to several decades of under-investment and a steep increase in heavy-goods traffic, California's roads are a mess. According to the delightfully precise “international roughness index”, the only worse ones are in New Jersey—and New Jersey has the excuse of freezing winters. Levees are crumbling near Sacramento, threatening farmland and suburbs. No surprise that, egged on by Arnold Schwarzenegger, the governor, California's voters in November authorised nearly $20 billion in bond issues to pay for transport and another $4 billion for flood protection.

What was widely praised as a bold, far-sighted solution to the state's infrastructure problems is in fact little more than a Band-Aid. Bonds must be paid for out of general taxation. Since raising taxes in California is politically unpalatable, all the infrastructure measures have done is to release money that would have been spent in the future. They have also foisted the burden of paying for the state's roads onto the general tax-paying population, rather than onto those who use the roads most heavily. That is undesirable from an economic point of view—and a missed opportunity, because a simple way of making people pay for road use already exists.

The land of the free

The petrol taxes that paid for much of America's post-war freeway system have been eaten away by inflation and higher fuel efficiency. The federal tax, of 18.4 cents a gallon, has not been raised since 1993. California's 18-cent tax has remained unchanged since 1994. The state's motorists now pay about one-third as much in petrol taxes, in real terms, to drive a mile as they did in the early 1960s, according to the Public Policy Institute of California. Yet raising such taxes is politically tricky. Twice in the past two years Minnesota's governor, Tim Pawlenty, has vetoed transport bills that included tax increases. “How dumb can they be?” he asked of the supporters of one bill—words that now haunt him.

This would matter less if private cash was flooding into infrastructure, or if new ways were being found to control demand. Neither is happening. In part because of the enormous market for government debt (which pays interest tax-free) it is often easier for states to pay for their own pipe-dreams rather than hand over projects to private developers. A new toll road in Texas, which is being built by a Spanish company, raised howls of outrage. Britain and Europe are far ahead of America in using public-private partnerships, just as they lead America in congestion pricing. “This is the land of the free,” notes Richard Little of the University of Southern California, wryly.

The collapse of the Minnesota bridge may help change attitudes. A national Gallup poll conducted soon afterwards found that more than half of all people thought the disaster hinted at broad flaws in the nation's transport system. Almost three-quarters favoured laws that would funnel $100 billion to repair bridges. Yet opinion polls tend to show strong support for spending on just about everything. The real question is whether Americans are prepared to pay more taxes in return for better infrastructure.

In one state, that question may soon be answered. A chastened Mr Pawlenty now appears to be

considering an increase in the petrol tax.

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The boom in roundabouts

Merry-go-round

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Once you begin to get the hang of them

IN DEEPEST Washington state, trooper Dusty Pierpont stands in front of a roundabout trying to persuade motorists to like them. Washington started building roundabouts in 1997. By 2001 there were 17; now there are over 100, according to Brian Walsh of the state's transport department. But trooper Pierpont is still needed to soothe those first-time (or even tenth-time) nerves.

America may be sluggardly on general road-building, but it is experiencing a boom in modern roundabouts, which (for those who have not yet met them) do the job of any ordinary four-way, stop-sign or traffic-light crossroads. They are more efficient and safer than the old traffic circles, such as Columbus Circle in Manhattan, which have been built in America for the past century. (Modern designs include mechanisms for slowing traffic down as it nears the roundabouts, for example, and do not allow pedestrians onto the centre of the circle).

Although exact statistics are hard to come by, the Insurance Institute for Highway Safety (IIHS) estimates that America has 1,000 modern-style roundabouts. Britain has 10,000, Australia 15,000 and France 20,000. Nowadays America is adding perhaps 150 to 250 new roundabouts a year, not counting mini-ones in suburbs. Even the Alaskan town of North Pole is building three new roundabouts, one at the corner of Santa Claus Lane and St Nicholas Drive.

The arguments for roundabouts are strong. There are no costly traffic lights to build or maintain. Unless something is coming round, cars need not stop, so congestion is reduced and fuel is saved. Most important is safety. About 45% of all crashes in America occur at crossroads, often because of misjudged left turns. At a roundabout, outside Britain and other countries that drive on the left, drivers can only turn right. A 2001 study by the IIHS found that roundabouts have 80% fewer crashes with injuries than ordinary intersections. Other research also points to big reductions.

So roundabouts may be a small reason why America's roads are slowly getting safer. Last year injuries in motor-vehicle crashes were down an estimated 6%. Even so, drivers are often sceptical. “We lose far more roundabouts that could have been built, because of city councils or a trucking company,” says Mr Walsh. There are also plenty of doubts in North Pole, according to the Fairbanks *Daily News-Miner*. After all, who wants Rudolph prancing round in circles?

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Energy policy

A flurry of good intentions

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Congress tries to green America's power supply

WHEN in doubt about energy policy, build more windmills. That, in short, was the thrust of the energy bill approved by the House of Representatives on August 4th. The legislators disagreed about a proposal to reduce the fuel-thirst of American cars. Surprisingly, they also passed up the opportunity to lavish more subsidies on ethanol. They did not even bother to consider a carbon tax or a cap-and-trade scheme for greenhouse gases. But they did give the nod to an amendment that would require utilities to generate 15% of their power from clean sources, such as windmills and solar panels, by 2020.

Proponents of the Renewable Electricity Standard (RES) say it will help to reduce both America's dependence on imported fuel and its greenhouse-gas emissions without raising power prices. They point to studies by the Energy Information Administration, a government agency, and Wood Mackenzie, a consultancy, which argue that the extra expense of renewable generation will be offset by reduced demand, and so lower prices, for coal and natural gas. No fewer than 27 states, as well as the District of Columbia, have already enacted similar standards. The European Union also has one, to generate one-fifth of its power from renewables by 2020.

But not everyone is convinced. Politicians from southern states complain that their part of the country is not mountainous enough to provide much hydropower, not blustery enough for windpower and not sunny enough for solar power (or not when compared with the south-west, at any rate). Southern Company, a big utility, claims that complying with an RES of 20% would cost it over $26 billion by 2030. Environmentalists argue back that there is plenty of scope for generating relatively cheap green power from farm waste in the South, or from offshore windfarms.

The bill tries to get round this debate by allowing utilities that cannot generate enough renewable power of their own to buy credits from others that have exceeded the 15% mark. It also allows the federal government to sell credits at a fixed price, as a sort of guarantee that implementing the RES would not become too expensive. Nonetheless, to get the RES approved, Tom Udall, the congressman who proposed it, had to lower his original target of 20% and agree to allow energy-efficiency drives to count towards fulfilment.

To become law the RES must still win the approval of the Senate, which rejected a similar measure earlier this year. Several senators have asked why Congress should favour windmills and solar panels, when nuclear power also produces few greenhouse-gas emissions. George Bush is sceptical too, although he signed an RES while governor of Texas: he wants the issue left to the states. But perhaps the biggest obstacle facing the RES is Congress's failure to agree on other aspects of energy policy. In the horse-trading that will surround efforts to reconcile the different energy bills approved by the House and the Senate, the RES could easily be brushed aside.

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Political campaigning

Grown up and buttoned-down

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The netroots meet in Chicago

THE bloggers, activists and politicos who attended the second YearlyKos convention in Chicago last week were not too rowdy. They ate crab cakes and carried tote-bags. They attended panels on precinct organising and campaign finance. The air was filled with a soft, rhythmic rattle as dozens of people typed on laptops.

Not quite crazy lefties, in other words. This would have come as a surprise to Bill O'Reilly, the host of a Fox News programme. He recently compared the *Daily Kos*, the Democratic blog affiliated with the convention, to the Ku Klux Klan and the Nazi party. It is true that some of the site's commentators are vicious, shrill and sanctimonious; their posts can be cherry-picked and broadcast as evidence of left-wing lunacy. But one comment Mr O'Reilly got worked up about was that the pope was “a primate”—which is not so far from the truth, ecclesiastically speaking.

The bloggers, activists and organisers collectively known as the netroots are widely respected in the Democratic Party. The highlight of YearlyKos was a forum for the Democratic presidential candidates. All but Joe Biden, who was on a book tour, were there. It was a shrewd use of their time. As a group, the netroots are well-informed, highly engaged and increasingly influential.

Their pet candidate, Howard Dean, imploded in 2004 to the relief of congressional Democrats. But in 2006 they had some notable victories. A grassroots campaign to unseat Joe Lieberman, a Democratic pro-war senator from Connecticut, seemed less quixotic when Ned Lamont, his multi-millionaire opponent, won the primary. Several House candidates won competitive races after being infused with cash raised in the blogosphere, and netroots money helped Democrats win Senate seats in Virginia and Montana.

In 2008 the netroots will shift the balance of some congressional races. All politics may still be local, but more and more fund-raising takes place at the national level. Two dozen candidates turned up at YearlyKos to seek their fortunes. As far as the Democratic presidential primary is concerned, most of the netroots will be satisfied with whatever nominee the process turns up, even Hillary Clinton, and are directing their energies elsewhere.

It was apparent during the forum that many are suspicious of Mrs Clinton. She was booed for saying that she will continue to accept donations from lobbyists, for example. But it was equally clear that she has their respect. When a moderator misspoke of the need to keep pressure on “President Clinton”, meaning President Bush, the senator beamed and the crowd laughed nervously.

The success of the netroots presents challenges for them. In last year's mid-term elections, merely beating expectations was a triumph. When Mr Lamont ended up with just 40% of the vote in the general election it was hailed as a victory, although it sent Mr Lieberman back to the Senate with even less party loyalty than before. In 2008 candidates approved by the netroots will not seem like underdogs.

And after the next election the netroots will lose one of their greatest resources: George Bush. Anger with Mr Bush and the war in Iraq has kept liberal interest groups united thus far, willing to compromise on some issues in their pursuit of electoral success. With Mr Bush gone, the movement may start to turn against itself.

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Professional sport

Curb your enthusiasm

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Corruption, dog fights, drugs—and Barry Bonds's new record

A RECORD-breaking feat may never have excited such complicated emotions. On August 7th, by hitting the ball out of the park for the 756th time, Barry Bonds broke Hank Aaron's 33-year-old career home-run total, regarded as the greatest record in professional baseball history. Yet even as San Francisco Giants fans hailed their hero, many other baseball fans across America were dismissing Mr Bonds as a cheat, and his new record a travesty.

There has been no clearer symbol of baseball's conundrum than the sport's commissioner, Bud Selig, who has been reduced to trailing Mr Bonds around the country in an (ultimately unsuccessful) attempt to be present at the historic record-breaking moment, while making it clear with his body language that he would rather be anywhere else. The reason for this ambivalence is the allegation that 43-year-old Mr Bonds has juiced himself up with steroids, which have enabled him to accelerate his home-run rate at an age when nature might have been expected to slow him down.

According to *USA Today*, among the well-wishers on August 4th, when Mr Bonds tied Mr Aaron's record, was Victor Conte, who professed “a feeling of happiness for him and his family”. Mr Conte, the founder of the Bay Area Laboratory Co-operative, provided steroids to Greg Anderson, a trainer who has been in prison since November 2006 for refusing to testify about Mr Bonds, a former client. Mr Bonds denies knowingly using steroids.

Baseball is not alone in suffering from bad publicity. This summer has seen a series of scandals. The FBI is looking into accusations that Tim Donaghy, a top basketball referee, bet on games in which he officiated and made decisions that altered the result. Michael Vick, a star quarterback in the National Football League, has been indicted following allegations that he ran illegal dog fights. And although the Tour de France is not, strictly, an American sport, the mounting evidence that doping is rife in it can only taint the Americans who have won it in the past.

Athletes and fans alike seem to have an ambivalent attitude to drugs. This perhaps reflects the growing use of performance-enhancing pills, from Prozac to Viagra, throughout society. Certainly there has been no shortage of baseball players willing to congratulate Mr Bonds on his record, and the players' union has long infuriated the World Anti-Doping Agency by its foot-dragging over drugs testing, despite evidence of widespread abuse. Although Mr Bonds has never tested positive for steroids, Clay Hensley, who pitched the ball with which he tied Mr Aaron's record, was once suspended for taking them.

Among fans there is an OJ-style racial divide, with whites more willing to believe the circumstantial evidence against Mr Bonds than his fellow African-Americans, some of whom point out that the achievements of many of baseball's past heroes (though not Mr Aaron, who is black) were artificially enhanced by segregation. As Chris Rock, a comedian, put it after Mr Bonds passed the home-run total of the legendary “Babe”, “Babe Ruth didn't play with no brothers. What is more of an advantage, a pill or racism?”

All of which creates a perfect opportunity for David Beckham, an English soccer star whose arrival in California in a bid to make soccer sexy has generated a blaze of (so far) positive publicity in America, though much scorn in England. Mr Beckham has in the past been accused of cheating, but only on his pop-star wife, making him just the sort of regular sporting hero America needs in its summer of crisis.

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Hurricane insurance

Wishing the wind not to blow

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A rather small pot of money for potentially huge storms

EARLIER this year Florida's governor, Charlie Crist, won praise for forcing the state's insurance companies to reduce their spiralling rates for hurricane damage. He promised that rates would drop by 24%. They haven't—and now, with the most intense weeks of the hurricane season approaching, the reality of Florida's windstorm-insurance crisis is beginning to set in.

After Mr Crist's intervention in January, matters have only got worse. Premiums remain high, and insurance companies are shedding customers as fast as they can. Allstate Floridian is abandoning 226,000 customers, one-third of its total client base in the state. State Farm, one of Florida's four leading insurers, also recently announced that it is dropping 50,000 customers. “The property-insurance business here in Florida is a very difficult proposition,” says Adam Shores, a spokesman for Allstate Floridian. “The exposure we had was greater than the claims-paying capacity we had.”

The slack is being picked up by a fast-growing state-run company, Citizens Property Insurance. Citizens is acting as the insurer of last resort, underwritten by the Florida Hurricane Catastrophe Fund, a pool financed by the state. In January the state decided it could resolve the crisis by expanding Citizens and making it more competitive with private companies. It is now by far the state's largest home-insurance provider, with 1.3m clients.

“It's a state takeover of the property-insurance market,” said Jeff Grady, the head of the 1,600-member Florida Association of Insurance Agents. And by allowing Citizens to grow so big, in the view of many agents, the state is exposing itself to tremendous financial risk in the event of a large-scale hurricane disaster. Unlike private companies, which can seek reinsurance on the global market where risk is less concentrated, the state would have to go to its own taxpayers if a huge storm struck.

Critics say the rates the state is letting Citizens charge are unrealistically low, and that the company is dangerously under-capitalised. With only a $1.9 billion surplus, it would quickly be overwhelmed by claims from a hurricane such as Andrew, the worst storm in Florida's history, which provoked $22 billion in damage claims (in 2006 dollars) when it hit the Miami region in 1992. Even Wilma, a much smaller hurricane, cost $11 billion in damage claims in 2005. No wonder Mr Crist likes the idea of a national catastrophe fund, which would spread the risk across the country.

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Lexington

Partners and power

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Illustration by Kevin Kallaugher

How far can a "two-for-one" candidacy go?

JUDITH GIULIANI likes to have an empty seat next to her on the campaign plane for "Baby Louis"—her Louis Vuitton handbag. Jeri Thompson is a "trophy wife" with a taste for low-cut dresses and gold-lamé wedge sandals. Ann Romney has five children and ten grandchildren. Elizabeth Kucinich sports a tongue-stud.

These are just a small sample of titbits about would-be first ladies culled from the press. There is nothing new in Americans taking an interest in the spouses of potential presidents, or in the media being cruel to them. How better to find out about a person's true nature than to observe their mate? And it is hardly surprising that they should be fascinated by Bill Clinton. Mr Clinton is potentially both America's first first husband and the first ex-two-term president to make it back into the White House. He is also, shall we say, a larger-than-life figure in his own right.

But the level of interest in the spouses goes far beyond anything observed before. The current *Vanity Fair* has a long hit-piece on Mrs Giuliani, and Elizabeth Edwards, who has incurable cancer, is getting better reviews than her husband.

One reason for all the interest is Republican hypocrisy. Mitt Romney, a Mormon and the great-grandson of a polygamist, is in fact one of the few Republicans who has stayed married to the same woman, his high-school sweetheart. Rudy Giuliani is on his third marriage, as is his wife, and has strained relations with his children. Cindy McCain and Mrs Thompson are both second wives who are, respectively, 18 and 24 years younger than their husbands. Newt Gingrich, a perpetual possible candidate, is also on his third marriage.

Old-fashioned human interest plays a part, of course. Mrs Edwards and Mrs Romney are both struggling against dreadful diseases—multiple sclerosis in Mrs Romney's case. Mrs McCain was once addicted to painkillers. The Giulianis had a year-long affair before Hizzoner announced their relationship to the world—and to a surprised Mrs Giuliani the second—at a news conference. Mrs Kucinich, 29, is a lithe redhead who likes quoting from the movie "Kama Sutra". How did the diminutive and unprepossessing Mr Kucinich (60) get so lucky?

The biggest reason for all the coverage, however, is that the spouses are upfront partners-in-power. Most of them are career women who are used to getting their voices heard. Mrs Edwards is a former lawyer. Michelle Obama first met the young Barack when she was assigned to mentor him at their law firm. Mrs

Thompson was a former spokeswoman for the Republican National Committee.

All these formidable women are now criss-crossing the country making speeches and raising money. Mr Giuliani has made his wife a campaign consultant. Mrs Thompson is widely regarded as the fire in her husband's belly; she presides over every detail of her husband's nascent campaign, from interviewing potential staffers to choosing the colours for the bumper-stickers. Mrs Romney became her husband's most vocal (indeed, his only) defender when America learned that he had once packed the family dog on the roof of his car for a 12-hour journey.

As for Mrs Edwards, she is almost a co-candidate. She weighs in on big policy decisions, and has encouraged her husband to speak from the heart rather than running a cautious, consultant-driven campaign. She is a familiar face in Iowa and New Hampshire, and has not hesitated to lay into both Ann Coulter, a right-wing polemicist, and Hillary Clinton.

The growing role of candidates' spouses raises tricky questions. How do they fit in with the rest of the campaign? Mrs Edwards often overshadows her husband. She also has much more liberal views on gay marriage. Mrs Giuliani's expensive ways and high-handed habits are providing grist for her husband's enemies. Mrs Thompson's imperious style has led to the departure of the campaign manager and other functionaries.

And what will they do if they get into the White House? It is unlikely that such politically savvy women will be content with just handing out the canapés. Mr Giuliani has even declared that he will allow his wife to sit in on cabinet meetings. But can presidents be relied on to tell their wives when they are messing up? And should such unelected figures be given big responsibilities? Mrs Clinton's health-care plan was one of the biggest disasters of her husband's presidency; she was eventually reduced to producing books about the first pets, Socks and Buddy.

No more first housewife

But two things are clear in the swirling debate about the spouses. First, there is little chance, in a world of assortative mating, female careers and political power-couples, of a return to the model of the first-lady-as-first-housewife. That model was always a bit of an illusion. Bess Truman may have stayed at home in Missouri, and Mamie Eisenhower may have turned the lamb chops while Ike ran the country. But Woodrow Wilson's wife, Edith, helped run the country when he was ill. Eleanor Roosevelt was a force of Nature. Betty Ford was outspoken on everything from abortion to marijuana use. Ronald Reagan called Nancy his closest adviser. Traditional spouses like Laura Bush have always been hard to find.

It is clear, too, that the big winners from the debate will be the couple who pioneered the “two-for-one” model of the presidency. The array of second and third wives on the Republican side makes it more difficult for the Republicans to dwell on Mr Clinton's indiscretions (at least the couple stayed together). The Giulianis will provide a particularly rich target in any tit-for-tat claims of spousal abuse. And the fact that all the candidates are giving their partners a big role in their campaigns makes it less remarkable that Mrs Clinton is relying on the former president. The gods are smiling on the Clintons once again.

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Venezuela

The rise of the “Boligarchs”

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Illustration by Claudio Munoz

Under Hugo Chávez, the right political connections are a passport to wealth, whisky and a Hummer

Get article background

“PETROLEUM socialism” is how Hugo Chávez, Venezuela's president, recently dubbed the blend of military populism and neo-Marxist statism to which he is subjecting his country. Its prime objective, he insists, is to improve the lot of the country's poor majority. Mr Chávez proclaims that “being rich is bad”. He frequently lashes out at what he calls “the oligarchy”. Strange, then, that the streets of Caracas are clogged with big new 4x4s (Hummers are especially favoured), it is hard to get a table at the best restaurants, and art dealers and whisky importers have never had it so good. A new oligarchy seems to be rising in Venezuela on the back of the “Bolivarian Revolution”, named for the country's independence hero.

“Some of Chávez's speeches are for the gallery,” says Alberto Muller Rojas, a retired army general who was until recently the president's chief of staff. “And I'll give you an example: the attack on the bourgeoisie.” As evidence, General Muller singles out the banks: “the most extreme expression of the bourgeoisie” but “the most favoured sector” of the economy since Mr Chávez came to power in 1999.

Their prosperity owes much to an oil windfall: the price of Venezuela's main export has increased almost eightfold since 1999 and the economy has been growing at 10% a year. But government policies, too, have favoured the bankers and other intermediaries: inflation is close to 20% and the official value of the currency is twice its black-market exchange rate. So the savvy investor looks for access to cheap dollars, import opportunities and government contracts, all of which are largely conditional on political obedience. By contrast, manufacturers and farmers face price controls and risk sporadic official harassment. The result has been the rise of what is known, in obeisance to Bolívar, as the “Boli-bourgeoisie”.

Thanks to economic growth and social programmes, the government claims that only 30% of Venezuelan families now live in poverty, down from 55% at the peak in 2003. But according to a new report by the central bank, income inequality has widened slightly under Mr Chávez: the Gini coefficient—a statistical measure of inequality—has gone from 0.44 in 2000 to 0.48 in 2005.

Typical of the new “Boligarchy” is Wilmer Ruperti, a shipping broker who was once a merchant seaman. His ascent was helped by a two-month strike against Mr Chávez by workers at Petróleos de Venezuela (PDVSA), the state oil company. Mr Ruperti chartered ships to help the government break the strike.

Another is Arné Chacón, whose brother Jesse is the communications minister. Arné now owns half of Baninvest, a bank. He acquired it with loans for which his main apparent collateral was his official connections.

Mr Chávez claims to be pursuing economic nationalism and “endogenous development”. But farmers and manufacturers struggle against cheap imports. Though local dairy products are often missing from the supermarket shelves, Gouda and Emmenthal cheeses nestle beside Irish butter. The frozen chickens at Mercal, a government chain of subsidised grocery shops, are Brazilian. The importers who supply Mercal have grown rich. But Venezuela's ranchers are becoming extinct, threatened by expropriations, land invasions and price controls, as well as by extortion and kidnappings by criminal gangs.

Officials stress that two-thirds of the poor have benefited directly from government social policies. As well as Mercal, these include the “missions”, which offer education and health care. Up to 2m people get a small cash stipend. But despite hefty increases in the minimum wage and price controls on basic goods, inflation is eating away at the gains.

For those with connections, however, the rewards are great. The World Bank recently ranked Venezuela as the second-worst country in the Americas for the control of corruption, above only Haiti. Others confirm this perception. “We usually ask for 10%,” a foreign diplomat reports one government official admitting. “But some get greedy and want 15-20%.”

Since his re-election in December, Mr Chávez has frequently suggested capping the salaries of the highest-paid public officials. He also called on those with “excess” wealth to donate part of it to worthy causes. The response has been meagre. If he really tries to make socialism more than a slogan, some of the fiercest resistance may come from the new bourgeoisie his own policies have created.

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Argentina and Venezuela

Business partners

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An alternative Dracula makes a buck

Get article background

SUDDENLY the economic outlook has turned a bit stormy for Argentina's president, Néstor Kirchner. Rationing of gas and electricity has become routine. Investors have lost confidence in the officially-massaged inflation numbers and credit markets are queasy. While yields on Brazil's bonds rose by only 53 basis points in the month to August 6th, those of Argentine bonds rose by 166 points—just when the government must roll over $3 billion in maturing debt.

But Mr Kirchner seems to reckon he has a saviour in his Venezuelan counterpart, Hugo Chávez, a man whose government has both energy and money. Visiting Buenos Aires this week, on yet another South American tour, Mr Chávez offered to buy $500m in Argentine bonds (and another $500m later). “He's always been there when we've needed him,” said Alberto Fernández, Mr Kirchner's chief of staff. In return, Argentina has given diplomatic support to Mr Chávez.

AFP

The bond between Chávez and Kirchner

This relationship annoys those Argentines who think their country would benefit from closer ties to the United States and Europe, and those Venezuelans who think their money is being squandered. But there is more to this alliance than meets the eye: contrary to appearances, Mr Kirchner extracts political advantage and Venezuela's government financial gain.

It began more than three years ago, with an agreement under which PDVSA, Venezuela's state oil company, sells fuel oil to Argentina. The proceeds, amounting to $560m so far, go to a trust fund Venezuela uses to buy Argentine products. With Argentina wanting to diversify its sources of financing after its 2001 debt default, Mr Chávez has stepped in, buying bonds totalling $4.7 billion before the latest purchase. With his help “Argentina is freeing itself from Dracula, it's breaking the IMF's chains,” Mr Chávez said.

But Mr Chávez is getting his pound of flesh too. The bonds he has just bought pay interest of almost 11% (the IMF charges less than 5%). His government sells them on at a discounted price to favoured Venezuelan banks (see article), which must acquire the dollars to pay for them at the black-market exchange rate (twice the official rate). And Argentina has paid about 20% more for PDVSA's fuel oil than the prices offered by competing firms.

The tie to Mr Chávez burnishes Mr Kirchner's credentials with the Argentine left, which is disappointed by his firm lid on public-sector pay. When backing Mr Chávez would entail a political price at home, Mr Kirchner has been unwilling to pay it. Although Iran is one of Venezuela's closest allies, Mr Kirchner last year supported a judge's decision to indict eight former Iranian officials for the bombing in 1994 of a Jewish community centre in Buenos Aires. When Venezuela's ambassador protested at the decision, Mr Kirchner secured his removal. Meanwhile, the PDVSA trust fund has provided lucrative contracts—with no tenders involved—for well-connected Argentine firms.

Mr Kirchner's wife, Cristina, is representing the first family in a presidential election in October. She recently said that Latin America needs Mr Chávez to solve its energy problems. Yet Argentina's conspicuous friendship with Venezuela does nothing to reassure other foreign investors. They have shunned the country, but will be needed more as its economic recovery starts to slow.

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Canada

The politics of war

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The minister, the general and pacifist Quebec

IN THE past year 22 soldiers from Canada's 2,500-strong force serving in Afghanistan's Kandahar province have been killed. So when Brigadier-General Guy Laroche, the force's commander, said that a recently arrived contingent from Quebec was going into harm's way, he seemed to be stating the obvious. In fact, he was stepping into a sharpening political debate on the main foreign-policy commitment of Stephen Harper's Conservative government.

Support for the Afghanistan deployment has weakened across Canada but it has collapsed in Quebec (see chart). The French-speaking province has long had a pacifist streak, born of past reluctance to fight for the British empire. That is awkward for Mr Harper. His main chance of converting his government's minority status into a majority at the next election lies in picking up more seats in the province.

So opponents seized on remarks by the defence minister, Gordon O'Connor, suggesting that the newly arrived troops would do more training than fighting. Yet another special deal for Quebec? No, shot back General Rick Hillier, the outspoken chief of the defence staff. There are more Afghan troops to train, he said. Others add that there are fewer Taliban rebels to fight in Kandahar.

General Hillier complained that the armed forces suffered a “decade of darkness” under previous Liberal governments. But he has clashed several times with Mr O'Connor, who has yet to set out a comprehensive defence policy. In the past, such tensions have tended to be resolved by finding a new military commander. This time it is the minister who might go: Mr O'Connor is praised by some for raising defence spending but he is a poor public speaker. He may lose his job in a summer cabinet reshuffle.

Some officials hope that media coverage of French-speaking soldiers telling their battle stories could win over Quebeckers to the Afghanistan mission. The government is trying to raise the army's presence in the province. A military college near Montreal, which was mothballed by the Liberals, will be reopened. A new air unit, costing C$300m ($285m) and creating 550 jobs, will be based near Quebec City. Even so, expect the new defence minister, if there is one, to speak better French than Mr O'Connor.

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The Beijing Olympics

On your marks (and Lenin)

Aug 9th 2007 | BEIJING
From The Economist print edition

AP

The stadiums, transport, ticketing, air pollution and even the weather are under control; shame about the people

Get article background

WITH exactly a year to go, the organisers of next year's Beijing Olympic games on August 8th set their countdown clock ticking in earnest—and in grand style, with a three-hour, nationally televised song-and-dance extravaganza in Tiananmen Square. Lest there were any doubt at all as to the intended message, the glitzy show featured a purpose-written anthem entitled “We are ready!”

In discussing their readiness, Chinese officials seem most keen to talk about the impressive collection of new and renovated sports venues that will house the competitions, such as the National Stadium (above), and the equally impressive array of new roads, railways, and metro lines that will ferry the massive crush of spectators and athletes around the chronically congested city. Other logistics seem likewise well in hand. The ticketing programme, organisers say, is proceeding smoothly. And although officials think they will need 100,000 volunteers to help run the games, they have already received more than 560,000 applications.

On the hardware side of the ledger, and especially when it comes to the venues themselves, it would seem every detail has indeed been attended to. Not only will all 37 venues be completed well in advance, officials promise, but they will be ready for any contingency. What if, for example, rain threatens to turn the Olympic beach-volleyball court into a mud pit? Never fear: after scouring the nation and testing different sand varieties for their water drainage properties, planners have located the very finest grains on distant Hainan island, and shipped 17,000 tonnes to Beijing.

Despite the choking, hazy, smog-laden pall that has hung over Beijing for much of this summer, planners are also likely to succeed in bringing Beijing's notorious air pollution down to more bearable levels during the games. If, to achieve this or ease road congestion, they have to impose draconian restrictions on traffic and industrial activity in the weeks before the games, they will have the authority they need to do so. Even the weather is taken care of. Officials at Beijing's municipal Weather Modification Office say the timely launching of chemicals into the atmosphere will allow them to dispel clouds and largely control the time and place of rainfall.

The government seems far less prepared, however, when it comes to the delicate business of handling the activists and pressure groups that are sure to use the event as a soapbox for their many and varied criticisms of its policies. Whether to do with labour rights, religious freedom, the mistreatment of ethnic

minorities or general political repression, there is no shortage of causes, and no shortage of champions prepared to take advantage of the Olympic spotlight.

The city already had a foretaste of this in the week marking the launch of the one-year countdown. At the Great Wall, on the outskirts of Beijing, a group of Tibetans from Britain, Canada and America displayed a huge banner proclaiming, “One World, One Dream, Free Tibet 2008”. The slogan plays on Beijing's official Olympic motto, “One World, One Dream”. A similar protest was mounted (and a similar banner unfurled) in April, at the Mount Everest base camp in Tibet.

In central Beijing, meanwhile, another international pressure group, Reporters Without Borders, conducted a small but colourful demonstration on August 6th outside the Olympic headquarters, accusing China of doing little to honour the promises it has been making about press and political freedom since it was chosen in 2001 to host the games. At the start of the year the foreign ministry instituted new and more liberal rules for foreign journalists working in China. It seems not, however, to have informed all the police. At the demonstration on August 6th, some foreign reporters were roughed up and detained on the spot for an hour.

The government this week repeated its “resolute opposition to the politicisation of the Olympics”. But it is not only foreign critics of China who are testing that resolve. In a brave open letter, a group of prominent Chinese activists and intellectuals—former political prisoners among them—took their own liberties with the official slogan. Entitled “One World, One Dream, Universal Human Rights”, the letter was addressed to China's leaders as well as heads of international organisations including the United Nations and the International Olympic Committee.

“We find no consolation or comfort”, wrote the dissidents, “in the rise of grandiose sports facilities, or a temporarily beautified Beijing city, or the prospect of Chinese athletes winning medals. We know too well how these glories are built on the ruins of the lives of ordinary people.”

Such a letter is cause for concern for China's leadership, for more reasons than one. Not only does it give the lie to any argument that agitation over human rights is limited to meddling, ill-intentioned foreigners, but it also signals that the internal propaganda objectives of the Olympic endeavour may not be so easy to meet as had seemed likely.

Much of the world assumes—with justification—that China hopes to use the games as a global coming-out party, raising its international profile and softening its image. But another important goal is to convey to the domestic audience that China has the stature and ability to take its place at the centre of the world stage. Neither goal will be well served next year by ham-fisted responses to criticism.

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Pakistan

The emergency ward

Aug 9th 2007 | ISLAMABAD
From The Economist print edition

Pervez Musharraf may have had enough of pretending to be a democrat at heart

Get article background

A MORE appropriate commemoration would be unimaginable. On the threshold of Pakistan's 60th birthday, on August 14th, rumours abounded that General Pervez Musharraf, the president, was poised to declare a state of emergency. On August 9th the general's aides told journalists that a declaration was likely and a decision would be taken at a meeting later that day. But the general stepped back from the brink. Eventually an announcement came that there would be no state of emergency because he is "committed to democracy".

Even by its historical standards, Pakistan is in a mess. In the past month over 300 people have been killed in suicide-bombings and fighting with Islamist militants. American officials say al-Qaeda has reconstituted itself in the northern tribal areas. Powerful voices, including that of Barack Obama, a Democratic presidential hopeful, have suggested America should not hesitate to launch air-strikes there. Condoleezza Rice, the secretary of state, talked at length with General Musharraf on August 8th.

AP

Out of uniform for once

But an emergency would have personal uses for General Musharraf. He plans to have himself re-elected as president by the current Parliament, shortly before its life expires in October. He wants to retain his uniform for his next term, though the constitution forbids it. Legal challenges to both moves would be certain. And the Supreme Court has fallen out of love with the general. In a state of emergency, the powers of the judges would be diminished and Parliament's life might be extended by a year.

Like dictators before him, General Musharraf has this year succumbed to hubris. His re-election plan has been in doubt since a clumsy attempt to sack Pakistan's chief justice, Iftikhar Chaudhry, in March. Mr Chaudhry challenged the decision in his own court—and on the streets. Hundreds of thousands of Pakistanis joined him there, in the first mass protests against General Musharraf's eight-year rule. According to a recent survey by the International Republican Institute, 64% of Pakistanis oppose giving him another term.

Last month the Supreme Court delivered a crippling blow to the government by reinstating Mr Chaudhry. That verdict assured further confrontation between the general and the judges. This month the court also ordered the release from jail of Javed Hashmi, a senior supporter of Nawaz Sharif, an exiled former prime minister and opponent of the general. Mr Hashmi had served four years of a 23-year sentence for inciting mutiny in the army. On August 9th the court was due to begin hearing an appeal by Mr Sharif against General Musharraf's refusal to let him return home.

This followed the stalling of recent negotiations between the general and another exiled former prime minister, Benazir Bhutto. A power-sharing arrangement between these two seemed close after they held a meeting in Abu Dhabi in late July. But Ms Bhutto said there would be "no deal" unless General Musharraf quit the army.

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The Philippines

Treasure hunt

Aug 9th 2007 | MANILA
From The Economist print edition

New twists in a 21-year battle to recover Marcos's legendary loot

Get article background

FERDINAND MARCOS, the dictator overthrown in a 1986 “people-power” uprising, reputedly looted up to $10 billion from the Philippines' public purse. After his downfall a Presidential Commission on Good Governance (PCGG) was created to trace and recover the stolen assets. In two decades of legal battles, it has retrieved only about a quarter of this sum. Dissatisfaction with the commission intensified last month when it lost a court case to recover almost $5m of alleged Marcos bank deposits after failing to present an important witness. Since then, speculation has grown that the PCGG has struck a deal with Marcos's family, to let it keep a chunk of its money in return for helping the commission recover the rest.

Officials insist there is no such deal. But some curious things are happening. Most notably, the Marcoses have suddenly revived their claims to valuable chunks of property and shareholdings in some of the Philippines' largest companies. Last month, they tried (and failed) to stop the sale on the stockmarket of GMA Network, a television station, claiming they owned 30% of it. Marcos supposedly parked much of his wealth with friendly businessmen. Their empires still dominate the Philippine economy, from agriculture to airlines, brewing to broadcasting. Much of the PCGG's efforts have been directed at getting these tycoons to hand over the Marcoses' alleged shares in their businesses.

The Supreme Court ruled in 2003 that the legitimate wealth Marcos and his family had earned before 1986 was less than $1m. Anything above this was illicit and liable to be seized. So why would they suddenly revive their claims to assets worth billions—unless they were confident of being allowed to keep a slice of them?

Further grist to the rumour mill was provided when, on August 1st, the PCGG called the late dictator's son, Ferdinand “Bongbong” Marcos Junior, as a witness in a case in which it is trying to seize his father's alleged 60% share in a group of businesses run by Lucio Tan, one of the country's richest tycoons. The commission insisted Mr Marcos was simply being forced to testify as a “hostile” witness. In the event, his testimony was delayed by objections raised by Mr Tan's lawyers.

This week it emerged that President Gloria Macapagal Arroyo had transferred control of the PCGG from her own office to that of the justice minister, who denied any deal with the Marcoses but seemed to acknowledge the possibility of one. The shift of responsibility isolates Mrs Arroyo from any political fallout if a deal is struck.

Marcos's widow, Imelda—she of the many shoes—has long insisted that her husband had made his fortune legally by trading in gold. Many Filipinos laugh at this claim. But some speculate that what she really means by gold “trading” is that Marcos had discovered part of the fabled Yamashita treasure. This was a colossal hoard of Japanese booty, supposedly stashed in the Philippines as Japan retreated at the end of the second world war. If this extravagant theory were ever proved true, the list of claimants to Marcos's assets would grow enormously.

Mrs Marcos, who last year launched her own brand of jewellery, the Imelda Collection, has been edging back towards the limelight she so obviously enjoys, as court cases against her have failed to make charges stick. Most recently, in June, a tax-evasion case dating back to the 1980s was thrown out. “Bongbong” Marcos won a congressional seat in May's elections. The family's increasingly bold assertions of owning large chunks of property and shares may reflect its growing confidence that it stands a chance of getting its hands on some of this loot, deal or no deal.

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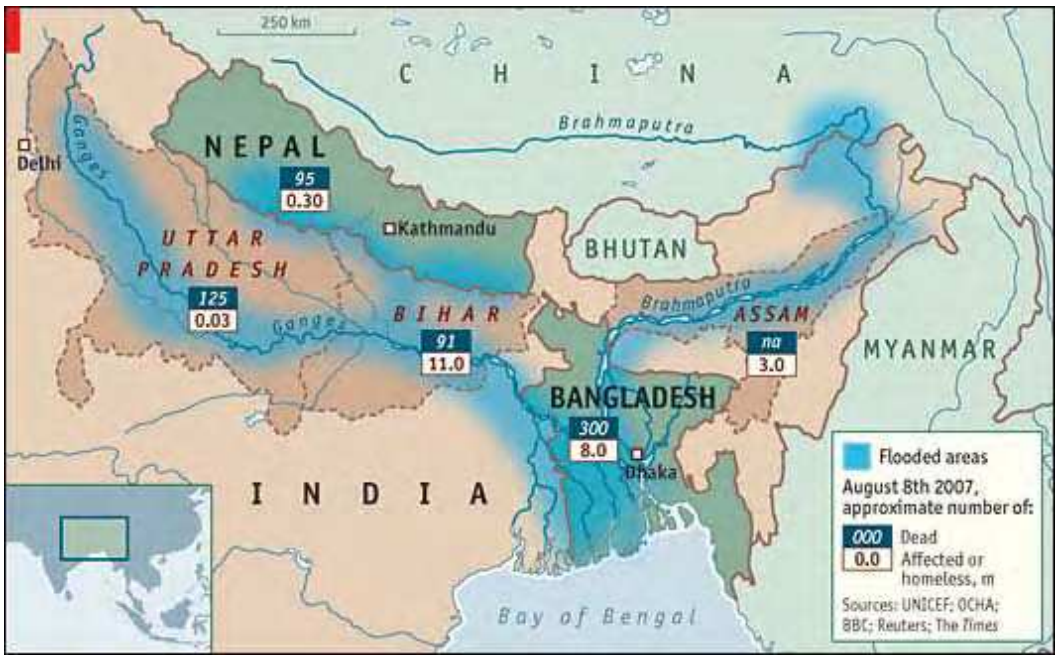
Bangladesh

Up to their necks

Aug 9th 2007 | DHAKA AND SIRAJGANJ
From The Economist print edition



Worse-than-usual monsoon havoc challenges the government's reputation

"I EXPECT to stay here for two to three weeks," says Mahmuda Khatun, a young, destitute mother of four, sitting on a narrow embankment in Sirajganj district, jam-packed with thousands of people, taking refuge from the rising waters of the Brahmaputra. A few kilometres upstream, the district town may disappear in the 12km-wide (7.5 miles) river. When Mahmuda was born, she says, the river flowed 15km east of the town.

By the middle of this week, some 40% of Bangladesh—a river delta the size of England with a population of 150m—was under water. Floods have also wreaked havoc in northern India and Nepal (see map), as well as in Pakistan.

But it is in Bangladesh, as ever, that things seem bleakest. With weeks of the monsoon season still ahead, hundreds of people dead, about 10m stranded, and the relief operation still patchy, many believe that this year could be as bad as the devastating floods in 1998 and 2004.

For Bangladesh's unelected civilian government and the generals who installed it in January, the floods are a tough test of their popularity, which, in the absence of an electoral mandate, rests on their competence. Besides the humanitarian disaster, the government will also face economic difficulties. Food prices, already at a ten-year high, will inevitably rise further. Shortages of power and fertiliser will add to the woes. The government is under pressure to raise interest rates and (highly subsidised) energy prices.

Critics say economic management under the military-backed regime, with little taste for subtleties, has made things worse. A demolition drive directed at long-established markets at the beginning of the year hurt the informal economy and the poor. The main justification for its rule is a campaign against corruption. In the short term, however, that has crowded out investment in an economy built on illegal money and crimped the entrepreneurial spirit of those not yet in the clink. This week the government requested banks to submit to it account details of 198 "corrupt people"—mostly politicians and businessmen who thrived under the kleptocracies that have succeeded each other since 1991.

Meanwhile, the fates of the country's former leaders, Sheikh Hasina Wajed of the Awami League, prime minister between 1996 and 2001, and her nemesis, Khaleda Zia of the Bangladesh Nationalist Party,

appear to have been sealed. But few people seem to care any longer—at least for now. Sheikh Hasina, accused of extortion and complicity in murder, is locked up in the parliament complex. Khaleda Zia, prime minister until last October, is under house arrest. Many believe that it is only a matter of time before she joins the beneficiaries of her rule, who worked furiously to push the country to the top of international corruption rankings, in jail.

Two weeks into the flooding and seven months after declaring a war on corruption, Hasan Mashud Chowdhury, a former army chief and head of the powerful Anti-Corruption Commission, admits that his campaign is more “sticky” than expected. On August 7th the government said it would not distinguish between legal and illegal money for flood relief. It also asked for help from the political parties, which have been important contributors to past flood-relief efforts.

Yet the state of emergency remains in place and a military takeover, in slow motion, continues. The telecoms regulator, the public-service commission and the Bangladesh Cricket Board are the latest in a long list of institutions now run by the army. Safeguards on individual liberties are non-existent. Human Rights Watch, a monitoring outfit, this week accused the government's military-intelligence arm of routinely abusing its citizens' rights.

There seem only bad choices left. The sad reality is that Bangladesh is a place where all governments, including military ones, fail—so daunting are the challenges. The best that can be hoped for is that this one does not collapse before the generals manage some sort of orderly transition.

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Timor-Leste

Buffalo blues

Aug 9th 2007 | DILI
From The Economist print edition

The new government has a controversial birth and a shaky start

Get article background

EVER since peaceful parliamentary elections on June 30th, an atmosphere of apprehension has hung over Timor-Leste's capital Dili. Neither the outgoing ruling party, Fretilin, nor the newly formed CNRT, led by Xanana Gusmão, hero of the resistance to Indonesian independence, won an outright majority. It was stalemate.

“If two buffaloes fight they will produce a baby called ‘Crisis’”, says José Belo, a journalist who spent his youth as a guerrilla fighting the Indonesian occupation and in prison. Like many others, he feels let down by the older generation of leaders. He had hoped Fretilin and CNRT would join a unity government.

So did José Ramos-Horta, president since winning elections in May. But his month-long attempt to broker an inclusive government failed. So on August 8th he ended the deadlock by swearing in Mr Gusmão, a long-term political ally and former president, as prime minister.

Mr Gusmão had forged a coalition with three other centre-left parties. Together they won a narrow 51% majority of the votes, and 37 of the 65 seats in parliament. Mr Gusmão's main rival, Mari Alkatiri, Fretilin's leader and a former prime minister, denounced Mr Ramos-Horta's decision. Fretilin, he said, would not co-operate with an “illegal and unconstitutional” government. The constitution is open to interpretation and he argues that Fretilin, as the party with the largest number of votes (29%), had the right to be asked first to form a government—even a minority one.

Fretilin said it will go to the villages and call on voters to fight the decision through non-violent means. But some of its supporters have already vented their anger on the streets. Groups of angry marauding young men armed with stones and slingshots ran amok, setting up roadblocks and torching buildings.

The country has been in a political limbo ever since last year when deadly clashes between rival factions in the security forces led to a total breakdown of law and order. Now security is mainly in the hands of United Nations police and Australian and New Zealand peacekeepers, who used teargas and rubber bullets to deter the crowds.

The new government will survive the violent protests. But the chances that it will last a full five-year term are slim. The coalition of parties is a loose alliance based on shared distrust of the clique that dominates Fretilin and on personal loyalty to Mr Gusmão.

But Mr Gusmão is no longer the trusted, unifying figure of the independence struggle of the 1990s. He still needs to prove himself at the head of an inexperienced government. One of the tests will be whether the estimated 100,000 displaced people, amounting to 10% of the population, many living in tented camps, feel safe enough to return home. But if Fretilin persists in its decision to obstruct the government, instability will persist. The fighting buffaloes are still at it.

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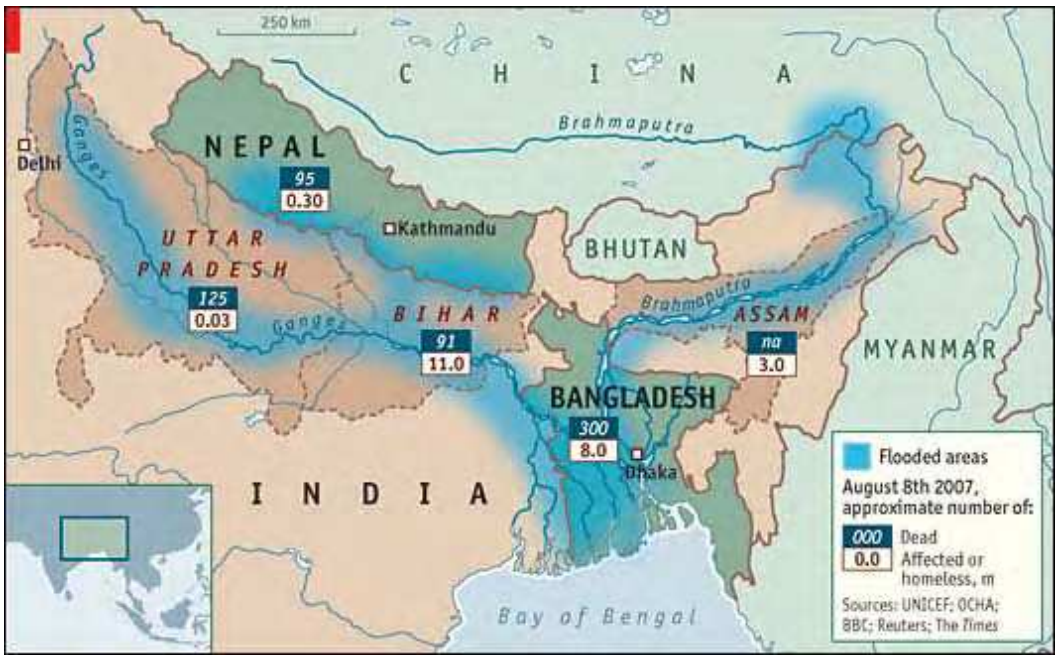
Bangladesh

Up to their necks

Aug 9th 2007 | DHAKA AND SIRAJGANJ
From The Economist print edition



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Asia's rich and poor

For whosoever hath, to him shall be given, and he shall have more

Aug 9th 2007 | HONG KONG
From The Economist print edition

Income inequality in emerging Asia is heading towards Latin American levels

Get article background

"GROWTH with equity" was the mantra of the Asian tigers during the three decades to the 1990s. Unlike Latin America, most of them combined speedy economic growth with relatively low and sometimes even falling income inequality, thereby spreading the economic gains widely. More recently, Asian economies have continued to enjoy the world's fastest growth, but the rich are now growing richer much faster than the poor.

According to a report by the Asian Development Bank (ADB), income inequality has increased over the past decade or so in 15 of the 21 countries it has studied. The three main exceptions are Thailand, Malaysia and Indonesia, the countries worst hit by the 1997 financial crisis. The biggest increases in inequality were in China, Nepal and Cambodia (see chart 1).

Income inequality is usually measured by a country's Gini coefficient, in which 0 is perfect equality (everyone has the same income) and 1 is perfect inequality (ie, one household takes everything). China's Gini coefficient rose from 0.41 in 1993 to 0.47 in 2004, the highest in Asia after Nepal (see chart 2).

On this measure, China has more income inequality than America (whose Gini coefficient is 0.46). Governments in Beijing and elsewhere in Asia like to comfort themselves with the thought that they still have less inequality than Latin America does. Argentina, Brazil, Chile and Mexico all have Gini coefficients of considerably over 0.5; Brazil's is 0.57.

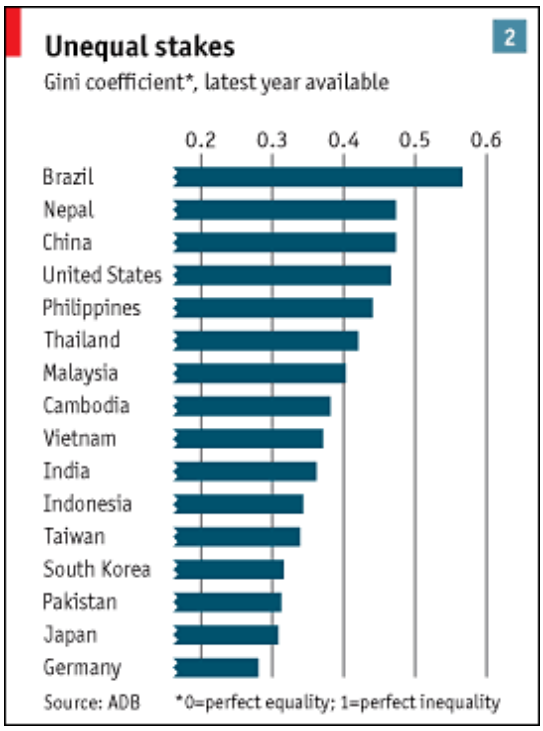
However, this may partly reflect differences in measurement. Gini coefficients in Latin America are based on income; those in Asia are mainly based on expenditure, because reliable income data are often not available. Using income data produces higher estimates of inequality in developing countries because it tends to understate the well-being of self-employed and agricultural workers, who are generally the poorest. In Asian countries where inequality data are available on both measures, the income coefficient is typically a fifth higher than that based on expenditure. Thailand's, for example, jumps from 0.43 to 0.52.

Infographics

This suggests inequality in many Asian countries could now be nudging Latin American levels if measured on a comparable basis. The figures in the chart are for 2004, but inequality has been rising in China, while in Brazil it has been falling over the past decade. Assuming this trend has continued, China's inequality may be as great as Brazil's already.

Moreover, in some Asian countries, expenditure figures may understate the true extent of inequality. India's Gini coefficient is in the lower half of the chart, yet health and education measures suggest the country suffers from wide disparities. In the richest 20% of households, only 5% of children are severely underweight, compared with 28% in the poorest 20%—a wider gap than in countries which have higher Gini coefficients. In India's richest state 99.8% of the population has access to clean water, but only 2% does in the poorest. The comparable figures

for China, where income inequality is officially much greater, are 100% and 75%.



The main cause of increased inequality, especially in China, is the differing fortunes of rural and urban households. Productivity—and hence income—is growing much more slowly in agriculture, on which most of the poor depend, than in manufacturing or services.

A second factor is the widening gap between those with and without skills. The shift from socialism to a market economy in China and India has increased the financial benefits of an education. Across Asia, the opening up of economies also means that some high-skilled workers are now paid more in line with international rates.

Does rising inequality matter so long as poverty is falling? It is clear that Asia's poor have not been bypassed by growth—popular claims to the contrary notwithstanding. Even where inequality has increased sharply, the poorest 20% of households are still better off in real terms than they were ten years ago everywhere except in Pakistan. The number of people living on less than $1 a day has fallen everywhere except in Pakistan and Bangladesh. Indeed, poverty has fallen by much more in some countries with high and rising inequality than in more egalitarian ones. The share of India's population living on less than $1 a day fell from 42% in 1993 to 35% in 2004. China saw a sharper fall, from 28% to 11%, largely thanks to faster growth.

But even if poverty has continued to fall despite rising inequality, it may not have dropped as fast as it might have if economic gains had been more equally distributed. The other main reason to worry about widening inequality, says the ADB, is that it can threaten growth if it results in social unrest. High and rising inequality played a big role in Nepal's recent troubles. Rumblings of discontent across the region suggest governments cannot afford to ignore such risks.

How to help—maybe

Populist measures to soak the rich are not the answer: they would stunt growth. The ADB instead recommends governments focus on policies that lift the incomes of the poor, such as improving rural access to health, education and social protection. More investment in rural infrastructure could boost productivity in farming and increase job opportunities for the poor.

But that is easier said than done. Rajiv Gandhi famously remarked that only 15% of government money intended for India's poor ever reached them. Most of it leaks out in bureaucratic incompetence or corruption—fattening the wallets of those who are already well-to-do.

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Zimbabweans in South Africa

No welcome, no let-up

Aug 9th 2007 | BEITBRIDGE
From The Economist print edition

Reuters

Zimbabweans opt for hardship in South Africa rather than hopelessness at home

Get article background

ON A dirt road in Weipe, a farming area in South Africa on the banks of the Limpopo river about 60km (37 miles) west of the busy Beitbridge border post, a few cars are waiting. Unemployed South Africans try to make a bit of money driving Zimbabweans—either locally employed or freshly arrived from across the river—wherever they want to go. But business is hard, as many new immigrants have no money. And there is also the risk of being arrested by the police for transporting people without visas.

When a police car duly arrives, the few bystanders hoping for a ride quickly vanish into the bush. Two friendly policemen stop the vehicles driving past, checking the passengers' papers. Six illegal Zimbabweans are picked up and ushered into the police car. They will be driven to the military base south of Musina, the nearby town, and deported within 24 hours.

Nick van der Vyver, who heads the office of the Geneva-based International Organisation for Migration on the Zimbabwean side of Beitbridge, says that so far this year an average of about 570 deported Zimbabweans cross his threshold every day. The figure is higher than last year's, and is probably far smaller than the number of those who do not get caught. Of those who do, most will probably be back on the South African side of the border within a few days; sealing over 200km of border is almost impossible. They add to the thousands who cross legally, in both directions.

The numbers say much about the desperation and determination of the impoverished Zimbabweans fleeing a country that is collapsing around them. Over 3m Zimbabweans are thought to have left their homeland (out of a population of 13m), most of them for South Africa. It is there that many already have friends or relations and where the economic opportunities are presumed to be best. But these emigrants are now causing problems far beyond the border.

At this time of year the Limpopo is dry, making it easy to cross by foot. But in the rainy season Zimbabweans dreaming of a better life drown in the surging waters, or are occasionally killed by crocodiles. Almost as dangerous are those who offer to help them cross for money: they often rob them blind or worse.

And crossing the border is only the beginning of their problems. Once they are in South Africa, making a living is hard. Some find jobs on farms, with minimum monthly salaries of about 1,000 rand ($142): not much, but still more than ten times a teacher's salary in Zimbabwe at the unofficial exchange rate. Many professionals, unable to survive at home with 80% unemployment, inflation heading for 100,000% (according to the IMF) and severe shortages of basic items such as meat, sugar and cooking oil, are also coming over. An association of Zimbabwean teachers in Johannesburg tries to help its 3,500 members with papers, professional certification, advice and jobs. Doctor Ncube, the chairman, believes there are over 10,000 Zimbabwean teachers in South Africa.

Limkani, who once taught in a secondary school in Matabeleland, hauled boxes in a warehouse for 75 rand a day when he came to South Africa in 2005. Another high-school teacher speaks of the one-bedroom flat he shares with seven others. His work permit means he is among the lucky ones. But he is struggling to win certification as a teacher in South Africa: he needs a letter from the Zimbabwean authorities, which say they have no stationery.

Many cannot even afford housing. In central Johannesburg the Methodist church has become a refuge for about 1,000 people, most of them Zimbabweans. At night the building bursts with people sleeping on every inch of floor; all must share just six lavatories. A Zimbabwean salesman has been living there for about a year. He finds occasional jobs as a security guard for 70 rand a day. Like most Zimbabweans in South Africa, he sends groceries and money home to his wife and children whenever he can.

The vast majority leave Zimbabwe because they cannot make ends meet. But some are escaping political persecution. Pianos, a 43-year-old official of the opposition Movement for Democratic Change (MDC), shows multiple scars on his face, legs and knees from the beatings he says he received from the police and pro-government youth militia. He fled after an opposition gathering on March 11th, during which MDC leaders were arrested and later beaten up. He is now hoping to obtain political asylum. But, even if successful, this will take years—and his wife and four of his children remain in Zimbabwe.

Many Zimbabweans say they will go back if things improve at home. In the meantime, though, Zimbabwe is losing its people and South Africa has a problem on its hands. With an unemployment rate of 26%, or closer to 40% by some measures, it can hardly absorb the flow. Some locals feel that Zimbabweans are competing for scarce jobs and adding to the crime rate, although there is no hard evidence to support this. The opposition Democratic Alliance wants refugee camps set up; the government disagrees, saying that most Zimbabweans are economic migrants, not refugees.

South Africa's government has been heavily criticised for not doing more to hasten the end of President Robert Mugabe's disastrous regime. One of its excuses for not pushing harder has been fear of precipitating a crisis in Zimbabwe that would adversely affect South Africa. But it is hard to escape the conclusion that the damage is already being done.

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Darfur

A dream writ in water

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Claims that an underground lake can resolve the conflict are exaggerated

Get article background

FAROUK EL-BAZ, Egypt's most famous geologist, has already had a school named after him, and a space shuttle on the American television programme “Star Trek”. Now he wants to give others a chance to make their mark. Mr El-Baz claims to have discovered the site of a huge, ancient lake in the far north of Sudan's Darfur region, where at least 200,000 people have been killed and about 2.5m displaced since 2003. Arguing that much of Darfur's violence is driven by competition for water, he hopes to drill wells to exploit groundwater in the area—and those who pay for the drilling, he says, “will have their names on the wells for ever”.

But there are problems. First, the former Lake Ptolemy (not, in fact, a new discovery) lay in the far north, in what is now a desert, hundreds of kilometres from the refugee camps. Even if water were to be found underground 5,000 years after the lake dried up, there is nobody nearby to drink it. Mr El-Baz says that pipes could take the water south, but that would be expensive. His long-term solution is to build vast irrigated farms in the middle of the desert, around which towns would spring up.

A French geologist, Alain Gachet (who advocates a rival radar technology to discover the most promising places to drill wells), thinks it would be better to concentrate on the known water resources farther south, nearer the camps. If properly managed, he says, there is already enough water to build peace in Darfur. Management, however, is difficult. Water in an arid conflict zone is like any other disputed resource, a prize to be controlled if possible—and, if not, destroyed. Government-backed militias in Darfur have sometimes killed well-drillers and ruined water points to prevent refugees returning to the land.

The UN secretary-general, Ban Ki-moon, recently claimed that the underlying causes of the killing in Darfur were ecological, “arising at least in part from climate change”, as the droughts of the 1980s pitted farmers against nomads in the struggle to survive. Many complain, however, that this ignores the political element: the present Sudanese government's encouragement of the nomads to form militias in an ethnic-cleansing policy that has provoked the fighting of the past few years. They will have been looking closely at the agreement reached on August 5th by some of the Darfuri rebel factions to form a common front as a prelude to resuming peace negotiations with the Sudanese government.

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Congo-Brazzaville

Oil, votes and Ninjas

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From The Economist print edition

The smaller Congo goes to the polls

FIRST the president's son had his credit card bills splashed on the internet after a shopping spree in Paris and Dubai. Then pygmies invited to a music festival in the capital were put up in the zoo, not a hotel. Meanwhile, Congo-Brazzaville has also been holding legislative elections. They have provided an unflattering picture of what is happening in a country that has had its share of turmoil recently but, with fewer dead and no United Nations peacekeepers, has attracted less attention than its big neighbour with the same name.

The first round of voting, on June 24th, was chaotic. Among the complaints were charges that the electoral registers were inaccurate; some apparently included the dead. Children were said to have been allowed to vote in some places, whereas eligible adults elsewhere were turned away. A local group of monitors described the organisation of the polls as a failure.

To its credit, the government appeared to agree: it sacked the election organiser for negligence four days after the vote. Nonetheless, this did not stop the ministry in charge from declaring that it was satisfied with the outcome.

The polling in the first round, when 54 seats were at stake, suggests that President Denis Sassou-Nguesso's grip on parliament will be strengthened. His Congolese Labour Party won a big majority, 37 to the opposition's three. The president's party will also be able to rely on the support of another 13, supposedly independent, members. Voting for the remaining 84 seats took place in a second, less chaotic, round on August 5th, the full results of which have yet to be announced.

Mr Sassou-Nguesso, a former general, first came to power in Congo in 1979. He ruled for 13 years, lost an election in 1992 but returned in 1997, fighting his way back into the presidency with his Angolan-backed Cobra militia. Since then, his country of 4m people has suffered four conflicts in which aid-workers say about 12,000 have been killed, 860,000 displaced and more than 27,000 raped.

Against this background, the participation in the election of Pastor Frederic Ntoumi's National Resistance Council was seen as a step forward, even though many opposition parties boycotted it. Mr Ntoumi's movement, better known as the “Ninjas”, is based in the southern Pool region and has fought against the northern-dominated government for ten years. Earlier in the year it said it would disarm, and a spokesman for Mr Ntoumi said he might even leave the bush to take up a job as a junior minister this month.

Lacking roads, schools and health care, the Pool has been a humanitarian disaster. Some say it still is, but there are signs of improvement. Former Ninjas are helping rebuild the road through it and the train to the coast is no longer routinely pillaged.

Congo is sub-Saharan Africa's fifth-largest oil producer, earning over $3 billion from the stuff last year. Yet life is getting worse, not better, for most Congolese, according to advocacy groups. The government, they say, has a complete disregard for human rights, and waste and mismanagement are rife. In addition, the country is embroiled in legal wrangles with creditors, who accuse it of hiding oil revenues while refusing to pay its debts. The extravagances of the president's son and the treatment of the pygmies seem entirely in keeping with the general ethos of the place.

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The Gaza Strip

Staying alive

Aug 9th 2007 | GAZA CITY
From The Economist print edition

Hamas brings some order, but little else, to embattled Gazans

Get article background

MOUFID ROUQ'S hands are waving wildly. The cars drive past him at high speed, missing him by inches. He blows on his whistle and is then attacked by traffic from another direction. The 28-year-old Gazan is one of thousands of volunteers enrolled by Hamas to manage the traffic since it seized control of the Gaza Strip. In the first weeks the volunteers were almost crushed by the waves of cars, but now they have established a degree of control. Away from the policed junctions, however, the old conditions prevail and right-of-way is a question of audacity.

Even so, Hamas and its police, the Executive Security Force (ESF), are proud of the order that they claim to have brought to Gaza. A spokesman says that the force has cracked down on the carrying of guns on the street, drug-dealing and car theft. If at times the ESF has been harsh, he says, it is because Palestinians sometimes need to be shown a strong hand.

The decisiveness of Hamas's victory over Fatah and its forces in June has acted as a major deterrent to rivals. Some have nonetheless started to test Hamas's reputation for invincibility. Last week in Gaza City, members of the ESF attempted to disarm members of Islamic Jihad who had fired their weapons in the air at a wedding celebration. Gun battles ensued and hitherto cowed members of Fatah joined in against Hamas. When the shooting stopped there were three dead, one each from Fatah, Hamas and Islamic Jihad. At the ensuing funerals, the yellow flags of Fatah, which have been absent from Gaza's streets for weeks, were waved in unison with the black flags of Islamic Jihad. The guns that Hamas had tried to silence at the wedding were fired in jubilation at the funerals. The limitations of the power of Hamas were noted.

All the same, no coalition of anti-Hamas forces exists yet. Ahmed Batch, a leader of Islamic Jihad, is quick to minimise the dispute between Hamas and his own group. But he also points out that while Hamas has improved domestic security in Gaza, the same problems that persisted under Fatah, such as poverty and isolation, remain. He predicts that the current economic crisis will lead to an outburst of rage. This could be directed at Israel or foreign countries, which are seen as party to the siege of Gaza.

The economic distress affects everyone. According to Imad Abu Dayya, an economist based in Gaza, 63,000 people have lost their jobs in the past six weeks because of the collapse of manufacturing industry, starved of raw materials and export markets. Mr Abu Dayya estimates that the Gaza Strip, whose population he puts at 1.5m, is existing on just $1m, or 67 cents per person, per day. International aid agencies will ensure that Gazans remain “on the edge of living”, but “Gaza is being dried out”, he says. Ramadan, the Muslim season of fasting and celebration, which begins in around a month, will be even more restrained than last year.

Raji Serani, the director of the Palestinian Centre for Human Rights and former leader of the first *intifada*, looks visibly depressed as he talks about the myriad of problems facing Gazans. His personal tragedy is that he has not seen his wife and children, who are in Cairo, for three months and does not know when the Rafah crossing to Egypt will be reopened. He is moved by the plight of 6,000 Gazans who have been stuck in makeshift desert camps in Egypt for six weeks. According to the UN, 33 have died there and only now are the rest being transferred from Egypt to Israel and then on to the Erez crossing in the north of Gaza. Their journey should take little more than one hour; instead, because of Israeli security and bureaucratic procedures, it takes 21 hours. The biggest anger this week was directed not at Israel or at the West, but at the ministry of education in Ramallah. Around 30,000 students who have completed their school-leaving examinations have not had their results approved, and this could prevent them entering higher education.

The problems in Gaza were not publicly addressed in the meeting between Mahmoud Abbas, the

president of the Palestinian Authority, and Ehud Olmert, the Israeli prime minister, in Jericho in the West Bank on August 6th. Mr Abbas keenly wants a diplomatic gift such as the removal of roadblocks or the freeing of prisoners, which he can use as added leverage to roll back Hamas in Gaza. Meanwhile, Gazans remain stoical about their fate, as they have learnt to be. “Before we were being suffocated 85%. Now it's 90%. It's tolerable,” concludes Mr Serani.

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Egypt

A summer of discontents

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From The Economist print edition

Economic woes are added to political frustration, a dangerous combination

AP

Get article background

BY THIS time next year, Egyptians will no longer be living under an official state of emergency, the government has promised. The news can only be welcome. Except for a few brief interludes, “emergency” laws have been in force ever since the 1952 coup that replaced the constitutional monarchy of King Farouk with an authoritarian republic. Under Hosni Mubarak, who assumed Egypt's presidency in 1981, activists have frequently charged police with abusing such laws to practise arbitrary arrest and torture.

But during this unusually hot summer, Egyptians may rightly wonder which emergency their government is talking about. For some, such as thousands of Bedouin in northern Sinai who have mounted sit-ins to protest against mass crackdowns on terrorist suspects, police brutality is indeed a priority. Yet a growing number of Egyptians seem unusually incensed about a range of other troubles.

Citizens in five of the country's 26 governorates, for instance, have been suffering a dire shortage of drinking water. Some villagers have blocked roads and demonstrated outside government offices in what the opposition press has dubbed a “revolution of the thirsty”. Others are angry about the failure of wages to keep up with inflation. Labour activists have documented some 350 protests this year, including strikes by state-employed teachers, postmen and train drivers. This number is not large in a country of 75m, but as public-sector workers have traditionally been mobilised behind the ruling party independent labour action is a disturbing novelty.

With wages for unskilled workers barely averaging $75 a month, with many commodities that were once subsidised by the state now being sold at market prices and with state health and education now only nominally free, Egyptians feel squeezed. Inflation officially peaked at 12% last spring, and has now declined. But independent economists note that food prices have risen 25% since last August and that queues for bread, a commodity that remains subsidised, have lengthened ominously as pinched consumers revert to relying on the staple food.

In contrast to the 1970s, when Egypt's crumbling socialist economy had been battered by recurrent wars with Israel, the country is now a capitalist success story. The woes of its poor are, ironically, a by-product of reforms that have improved overall performance. Yearly GDP growth has approached 7% since 2005, with exports growing at 20% a year. Last year Cairo's stock exchange was the world's hottest. This year investors have shifted to the property market, resulting in a real-estate boom that has enriched speculators, but pushed housing even further out of reach of the poor. Such stresses, including the widening wealth gap, are inevitable in a period of transition, say government advisers. They may be right, too, that sustained economic growth will pull ever more Egyptians out of poverty.

But the course of Egypt's political transition is less clear. The state has proved adept at thwarting foes of Mr Mubarak, to the point where none can challenge his party's rule. The government allowed its main surviving opponent, the Muslim Brotherhood, whose candidates run as independents, to gain a fifth of the parliamentary seats in the 2005 election. But the group remains officially banned and is now under heavy pressure. Some 500 of its members are in prison, with six leaders on trial, under emergency laws, in military courts. They will surely be sentenced before the laws are abolished, and even then the government has other legislation that gives it much the same powers under different names. Should Egypt's current bad temper persist, it will need them.

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Iran

Culture and Islamic guidance

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This week Iran marked its official "journalist's day"

Get article background

IRAN is no place to be gay—nor much of a place to be a journalist, either. The Ministry for Culture and Islamic Guidance this week closed a daily newspaper, *Shargh,* for publishing an interview with a "counter-revolutionary" Iran accuses of promoting homosexuality. She is Saghi Ghahreman, an Iranian poet who lives in Canada. Homosexuality is illegal in the Islamic Republic and, formally, punishable by death.

Shargh had only just returned to the streets after being banned in 2006 for cartooning President Mahmoud Ahmadinejad as a donkey. It was one of a handful of liberal papers to have fitfully survived the clampdown that followed his election in 2005, which signalled the end of the reformist period under his predecessor, Muhammad Khatami. Another reformist paper, *Ham Mihan*, was closed in July, just after reappearing after a seven-year ban. Last month Emadoldin Baghi, former editor of *Jomhouriat*, was jailed for three years for "activities against national security" and "publicity in favour of the regime's opponents".

Though Iran has more than 70m people and high rates of literacy, Mohammed Atrianfar, a senior member of the group that publishes both *Shargh* and *Ham Mihan*, puts total newspaper readership at less than 2m, about half of whom live in Tehran. Most Iranians receive their news from the state broadcaster, IRIB, or satellite broadcasts from abroad. But the treatment of the reformist press is a fair barometer of the country's politics. It's getting chillier.

Mehran Ghassemi of *Etemad Melli*, a moderate paper that continues to appear for now, says that because newspapers tend to be banned every few months journalists are used to long periods of unemployment. When at work they use self-censorship to avoid crossing the invisible line that defines what is acceptable. Some transgressions can be fatal. A court last month sentenced Adnan Hassanpour, a journalist on a now closed Kurdish-Persian weekly, to death on charges of endangering national security and propaganda against the state.

Not all journalistic forms are in trouble, however. Television documentary, of one kind, is thriving. Last month Iran screened one called "In the Name of Democracy", in which Haleh Esfandiari and Kian Tajbakhsh, both American-Iranian academics held in Tehran's Evin prison, appeared on air "confessing" to work respectively for the Woodrow Wilson International Centre for Scholars and George Soros's Open Society Institute. Iran accuses these bodies of trying to foment counter-revolution.

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France and Germany

Disillusion across the Rhine

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From The Economist print edition

Illustration by Peter Schrank

After a bright start, some bumpiness emerges in a close bilateral relationship

Get article background

CHARLES DE GAULLE once likened France and Germany to “exhausted and wavering wrestlers who rest against each other”. Rest made possible the partnership that became the driving force behind the European project. Fifty years on the memory of war's horror is fading, and the partners feel perky. The German economy under Chancellor Angela Merkel is growing at its fastest pace since 2000. Nobody could possibly say that France's new president, Nicolas Sarkozy, is exhausted and wavering (this week, he took the opportunity of a holiday in New Hampshire to release a statement and a French tirade at two American photographers, before meeting the American president).

France and Germany are starting to chafe against each other again. The latest example is the spat over France's dealings with Libya. After months of negotiation by the European Union to free six Bulgarian medical staff who were sentenced to death for infecting Libyan children with HIV, Mr Sarkozy's wife, Cécilia, swooped in to take the freed inmates to Bulgaria and the credit for their release home to France. Worse, Mr Sarkozy agreed, without telling Germany, to sell a nuclear power plant and weapons to Libya.

This comes after other provocations. Mr Sarkozy has repeatedly questioned the tenets of Europe's single currency, especially its strictures on budget deficits and on the independence of the European Central Bank (ECB). “Germans are getting increasingly fed up with the French style,” says Daniela Schwarzer of the Stiftung Wissenschaft und Politik, a think-tank.

This is hardly a crisis. On the issue that matters most to Germany, the future of the EU, Mr Sarkozy is playing ball. In 2005 French and Dutch voters rejected the draft EU constitution. Mr Sarkozy came to office vowing to push through a new treaty that retains most of the substance of the rejected one. A deal to this effect was duly done at an EU summit chaired by Ms Merkel in June. Better still, Mr Sarkozy, like most other national leaders, will submit the result for ratification to parliament, not voters (see article). This is a great comfort to Germany. “On core issues we've had a very good start with Sarkozy,” says a senior German diplomat.

Yet on other matters, especially the euro and foreign policy, Mr Sarkozy has been more troubling to his partners. During his campaign he pandered to the 95% of Frenchmen who believe that the single currency has raised prices (“the kidnapping of the euro has to stop,” he pleaded). Since taking office in May he has floated various ideas for prying it loose from the control of the ECB, whose job is to maintain its value. Perhaps the EU should have an economic government, he mused. His Europe minister hinted that the ECB's independence should be curbed. In an unprecedented presidential visit to a meeting of EU finance

ministers in July, Mr Sarkozy asked for extra time to cut France's budget deficit, which it had originally promised to eliminate by 2010.

Mr Sarkozy's flirtation with Libya is part of a France-first stance that sits ill with the very notion of a common EU foreign policy. He also champions a “Mediterranean Union”, consisting of eight southern European countries and ten North African and Middle Eastern ones (including Libya), which would have its own EU-style council of governments. “This would be like Mercosur,” a South American customs union, suggests Jean-Louis Guigou, a long-time champion of the scheme. The idea is to counter migration pressure through economic development. But it threatens to undermine the “Barcelona process”, the current European framework for the region, which Mr Sarkozy has already pronounced a failure.

The change in atmosphere is partly due to a change in style. Mr Sarkozy, like Ms Merkel, belongs to a generation that takes peace for granted. It is hard to imagine any previous post-war president remarking, as Mr Sarkozy did on the campaign trail, that France “did not invent the final solution”. Both leaders are more pro-American than their predecessors, Jacques Chirac and Gerhard Schröder, who were drawn together by a hostility to American unilateralism in general and the Iraq war in particular. But Ms Merkel is a cautious consensus builder who, like a film producer, is content to let others share the limelight, whereas Mr Sarkozy likes to be director, scriptwriter and leading man. Such a relationship can work, but only if the star does not try to steal the whole show.

There are reasons for thinking that Franco-German tensions will outlast whatever chemistry affects Mr Sarkozy and Ms Merkel. The first is differences in their economies. Germany has pushed down labour costs, outsourced production to other countries and sells more capital goods, which are much in demand in emerging economies like China. France has restructured less and depends more on price-sensitive consumer goods. As a result, “when the euro rises Germany makes money and France loses,” says Jean-Michel Six of Standard & Poor's, a rating agency. That reinforces the French preference for political intervention in both the economy and the currency.

The second is EU enlargement, which reduces the influence of the Franco-German duo and tempts each to pursue its own interests. It was under Mr Schröder that Germany began to subject EU initiatives to cost-benefit tests, which often produced a negative result. Yet mainstream German political parties remain pro-European and supportive of enlargement (if not as far as Turkey). That is less true of France. “France is probably the country that, through enlargement, had the strongest feeling of being marginalised,” says Ulrike Guérot of the newly established European Council on Foreign Relations.

Despite the strains, the Franco-German motor chugs on. All the two countries' ministers meet twice a year to discuss bilateral and, increasingly, European issues; the leaders meet every two months. The latest such encounter defused a potential dispute over who would manage EADS, an aerospace giant. No other bilateral relationship in Europe is sustained by such constant diplomacy. Tensions have often been productive: if this pairing agrees on something, the chances are high that the rest of Europe will go along. Even Mr Sarkozy's abrasiveness may serve the European cause. “He wants to rally the French to the idea of a limited European treaty, so he criticises the euro, as a populist move,” says Dominique Moïsi, a French foreign-policy pundit.

The risk is not of a sudden rupture but more of missed opportunities. Germany's allergy to economic tinkering squelches any discussion of measures the EU might take to correct the defects of a one-size-fits-all monetary policy, says Ms Schwarzer. On the other hand, Europe's fledgling foreign-policy initiatives on Iran and Iraq, to say nothing of its negotiations to admit Turkey as a full member, could be undermined by Mr Sarkozy's Mediterranean adventures. De Gaulle eventually reconciled nationalism with Europeanism. Today's leaders could find it harder.

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Bulgaria and the European Union

EUphoria, for now

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Much harder work is needed to tackle organised crime and corruption

BULGARIANS are still rejoicing over the release of their nurses from Libya. Most believe it was secured only because their country joined the European Union in January. Sergey Stanishev, the Socialist prime minister, encourages this view, because it reinforces his shaky coalition. So does President Georgi Parvanov, another Socialist in trouble, who welcomed the six at the airport and promptly signed official pardons.

Bulgaria is in the honeymoon stage of EU membership. Accession has fuelled a construction boom from the Black Sea to Sofia. Foreigners are pouring money into property; local builders are so scarce that workers are being recruited in Belarus and Ukraine. The economy will grow by over 6% this year. So many Bulgarians have taken mortgages that the central bank has introduced loan curbs.

Yet some are still waiting for their EU benefits. The Socialists put a junior coalition partner, the Movement for Rights and Freedoms, in charge of the agriculture ministry. Its leader, Ahmed Dogan, a wily politician from Bulgaria's Turkish minority, is good at finding jobs for supporters, less so at getting EU money flowing. Eight months after accession, most Bulgarian farmers are still waiting for their first cheques from Brussels.

Mr Stanishev and Mr Parvanov also seem unaware that membership brings obligations. In June the European Commission, under pressure from its Bulgarian and Romanian members, softened a report chastising both governments for doing too little to tackle corruption and organised crime. But if more progress is not made in a year's time, the pair may face sanctions.

The report singled out Bulgaria on organised crime. Contract killings persist in Sofia, as does corruption among prosecutors and judges. Despite efforts to clean up the prosecution service, not a single suspect in a contract killing has been convicted. Worse, the government has stopped trying. It is months since the commission against corruption set up by Mr Stanishev held a meeting. Rumen Ovcharov, who resigned as energy minister two months ago amid corruption allegations, still wields influence behind the scenes, say EU officials.

Mr Parvanov is now found to have had links with the communist-era security service. Bulgaria has opened its files to scrutiny — years after other east Europeans. Mr Parvanov claims not to have known that the man who asked him to edit a book about relations with Macedonia was a spy. A crucial 36 pages are missing from his file. The president's approval rating has plummeted.

Local elections in October will give the voters a chance to protest. Polls suggest that Gerb, a new right-wing party led by Boiko Borisov, the mayor of Sofia, may do well. The Socialists have been discomfited by the shooting on July 11th of Manol Velev, a businessman. Mr Velev, who is in a coma, is married to the sports minister and paid for Mr Parvanov's re-election campaign last year. Voters fret that the politicians' inertia may be letting criminals take over.

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Denmark's bridges

Crossing the waters

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The Danes' enthusiasm for more bridges just keeps growing

A LOVE of bridges is understandable in a country with 400 islands. Denmark boasts two of the world's most impressive: the Great Belt bridge linking east and west Denmark, and the Oresund bridge spanning the strait between Sweden and Denmark. Bridge-lovers are rejoicing after the government announced plans for the biggest bridge yet: a 19-kilometre (12-mile) colossus across the Fehmarn strait between Denmark and Germany.

The hope is that the bridge, with four motorway lanes and two rail tracks, will be a fast artery linking Copenhagen with Hamburg. Construction is expected to start in 2011 and finish in 2018. Yet the plan has triggered worry and envy. Worriers, notably the far-right Danish People's Party (DPP), are miffed that Denmark is to pay the €4.7 billion ($6.5 billion) cost alone. The government says taking sole financial responsibility (and ownership) was the only way to win German agreement. Envy is seen in calls for a new Kattegat bridge to cut the three-hour train journey between Copenhagen and Aarhus, Denmark's second city, to 30 minutes. This would cost twice as much as the Fehmarn link. Yet politicians are making encouraging noises.

The enthusiasm has a simple explanation: big bridges have been huge successes. The Oresund gets rave reviews and lots of traffic. Higher toll revenues have cut the bridge's debt-repayment schedule from 35 to 33 years. Yet even this bridge has enemies. Earlier this year the DPP grumbled that it was a conduit for immigrants, undermining Denmark's strict controls. In 2006 Sweden gave out 47,500 permanent residence permits to refugees and immigrants; Denmark gave out only 5,300. The DPP argues that, once the foreigners are in Sweden, they may flood over the bridge.

In fact, it is Sweden, not Denmark, that is being invaded. Since 1999, before the bridge opened, the number of Danes going to live in southern Sweden has risen sevenfold. One forecast suggests that southern Sweden's population of resident Danes may rise from today's 20,000 to over 150,000 in 20 years' time. This has two causes: houses and cars, which are both much cheaper in Sweden. Traffic the other way also has an economic cause: Swedes who commute to jobs in Copenhagen can earn 20% more disposable income, despite the tolls. Benefits for commuters and migrants leave Swedes unworried by tales of Danish ghettos in Malmo.

Local politicians applaud an outperforming economy. Copenhagen's growth is expected to be 3% in 2007, compared with a national average of 2.3%. The Malmo region may grow by 4.2%, against a Swedish

average of 3.7%. The DPP's carping thus strikes a discordant note. Anders Olshov, chief executive of the Swedish-based Oresund Institute, a think-tank, says dismissively that it is sad that Denmark has a party bent on isolating the country “like a Nordic Albania”.

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Russia's new assertiveness

Ships, subs and missiles

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Ventures into the near-abroad

IN RECENT weeks Russian nostalgia for past greatness has been seen stretching from the North Pole to the Mediterranean via the Caucasus. First the Russians planted a flag on the bottom of the Arctic. Then they promised to return to the Mediterranean. For good measure, a Russian-made bomb fell (but did not explode) into a vegetable field in Georgia. That the three events came close together may be a coincidence. That they all testify to Russia's new assertiveness is not.

The incident in Georgia may be the most serious. The relationship between Moscow and Tbilisi has been near breaking-point for months. There are no direct transport links between the two countries, and Georgian food and wine imports are banned in Russia (for health reasons, of course). Russia supports the breakaway enclaves of South Ossetia and Abkhazia, which Georgia is trying to regain, even to the extent of issuing residents with Russian passports. It could take less than a bomb to detonate such a situation.

The ownership of the bomb that landed close to South Ossetia is disputed. The Georgians claim that the Russian-produced missile was dropped by a Russian SU-24 bomber, which violated their airspace; they accuse Moscow of “undisguised aggression” and have called for an emergency UN meeting. Russia indignantly denies involvement and suggests that the missile was fired by Georgia itself. America has cautiously called the strike a “provocation” and the European Union urged all sides to show restraint.

Russia's latest row with Georgia is not the only source of anxiety for its neighbours. A few days ago Russia's naval commander proposed “to restore its permanent presence” in the Mediterranean, using the Baltic and Black Sea fleets. Admiral Vladimir Masorin explained his plans on a visit to Sebastopol. The collapse of the Soviet Union deprived Russia of key ports and cut the size of its fleet. For years a Russian naval base in Syria has been standing empty. The return of their ships to Syria is a dream of Russia's admirals and a nightmare for Israel, which fears renewed Russian co-operation with Syria. Yet the panic may be premature. Most analysts reckon that Russia's fleet is more frightening on paper than in reality, and that it is too stretched to upset the balance of power in the Mediterranean.

Russia's Mediterranean plans pale in comparison with its audacious foray into the Arctic, the biggest recent story in the Russian media. Artur Chilingarov, an adventurer and deputy speaker of Russia's parliament, led two Russian mini-submarines to the bottom of the Arctic Ocean beneath the North Pole, where he collected gravel and planted the Russian flag. The official purpose of this first-ever manned mission was “to prove that the North Pole is an extension of the Russian coastal shelf.” Geologists say the region could have big oil, gas and mineral reserves.

Yet the scientific value of Mr Chilingarov's expedition was negligible compared with its political value, says Lev Savatyugin of the Russian Arctic and Antarctic Research Institute. “Samples taken from the surface of the seabed are not very reliable. Besides, we already know the geology of the Arctic Ocean's seabed and have been collecting samples for many years,” he adds. More important was the symbolism of the mission. The exploration of the Arctic features prominently in Soviet imperial mythology. It was 70 years ago, in 1937, that Ivan Papanin first landed on drifting ice floes and raised the Soviet flag over the North Pole-1 station.

Joseph Stalin greeted the Soviet hero in the Kremlin, praising him for “overturning the outdated perception of the Arctic”. Stalin declared that “it sometimes happens that new ways in science and technology are paved not by famous scientists, but ordinary people, practitioners, unknown in the scientific world.” On August 7th Vladimir Putin received Mr Chilingarov in the Kremlin, taking comfort from the fact that “today's generation of polar explorers is worthily continuing the glorious traditions of the heroic Arctic pioneers.”

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Charlemagne

For your eyes only

Aug 9th 2007
From The Economist print edition

Illustration by Peter Schrank

Why do so many European leaders favour unintelligibility?

OUTSIDE the world of James Bond, people with secret plans rarely brag about them in advance. Even Bond villains wait until they think 007 faces imminent death before blabbing out their plans for world domination. This is as you would expect: if you have a sneaky plot, is it a good idea to boast about it?

This simple analogy brings home just how odd it is that so many leading politicians have been standing up recently to declare that the European Union's big new idea is to hoodwink the voters. Specifically, ever more bigwigs have stated that the EU's new treaty was deliberately made as unintelligible as possible so as to make it easier to win new powers for Brussels. That was the lesson they drew from the ill-fated EU constitution when it was voted down by French and Dutch voters in 2005.

There is nothing new in claims that the EU is seizing power by stealth. What is novel is that they come from ardent supporters of EU integration. An early case was Valéry Giscard d'Estaing, a former French president who chaired the convention that drafted the constitution. Earlier this summer, as EU leaders gathered to salvage bits of his wrecked text, Mr Giscard d'Estaing publicly declared that the plan was to "camouflage" the big changes that his constitution had tried to set out openly. "Public opinion", he said, "will be led to accept, without realising it, provisions that nobody dared to present directly."

After the summit had agreed to an outline of the new treaty, Giuliano Amato, Italy's interior minister, who was a vice-chairman of the constitutional convention, hailed the way it had been given an "unreadable" new form, full of cross-references and footnotes. This, Mr Amato told a meeting in London, was done to help governments that were struggling to avoid "dangerous" referendums on the new treaty (in Britain, the Blair government had promised a referendum on the constitution). Now, said Mr Amato, a British prime minister could say: "Look, you see, it's absolutely unreadable, it's the typical Brussels treaty, nothing new, no need for a referendum."

The list goes on. A month ago Luxembourg's prime minister, Jean-Claude Juncker, observed that new treaties always involve hefty transfers of sovereignty, before asking if it was "intelligent" to draw attention to this in places like Britain. And last week, the other convention vice-chairman, Jean-Luc Dehaene, a former Belgian prime minister, offered a broader conclusion. In an interview with *Le Soir*, Mr Dehaene declared it "dangerous talk" to want too much "transparency and clarity" in the EU.

Unsurprisingly, many of these remarks were instantly reproduced by newspapers in Britain and the Netherlands (another country where there are calls for a referendum). Yet Eurosceptics do not seem grateful for the ammunition being handed to them by ardent federalists. Some seem to assume that, like some latter-day Blofelds or Goldfingers, pro-Europeans just cannot resist gloating about their wicked plans. Open Europe, a British lobby group, even accused the habitually charming Mr Amato of "loathsome smugness".

This is unfair. More important, it misses the real point. Listen to a recording of his remarks, and Mr Amato sounds wry and world-weary as he contemplates the ironies of British domestic politics. Read Mr Giscard d'Estaing's new internet blog on Europe (though 81, he has become a keen blogger), and it is clear that he is bitter, not pleased, that his beloved constitution is being smuggled past hostile voters. The consensus among the constitution's fathers is that they crafted a text of unprecedented clarity and transparency, but that today's national leaders were too cowardly to sell the thing to their voters (don't even talk to them about the British). Hence the rush to stealth, which they note with disdain. Mr Juncker claims to be “astounded” that other European leaders seem to “fear the people”.

In this debate everyone seems to be talking past each other. In countries like Britain it seems to many voters an affront to democracy to deny them a popular vote on the new treaty. To Europhile politicians, it is the idea of giving Britain a referendum that is anti-democratic, as it would be tantamount to giving a Eurosceptic outlier a veto over a constitution that 18 countries have already ratified in its original form.

Hang on, critics might counter, only two of those ratifiers held referendums (Spain and Luxembourg). The rest whisked the constitution through their parliaments. So what, retorts Mr Dehaene. “Europe won't advance by referendum, that may be provocative, but that's how it is,” he told *Le Soir*. To veterans like him, the European project is a moral revolution in progress, whose benefits are not always immediately visible. Thus the need to avoid pesky referendums. It is a commonplace among EU officials that they would never have achieved the single currency, successive waves of enlargement or even the single market if there had been votes on every step in every country.

Hubris and nemesis

There is some truth in this. And there is also a perfectly respectable argument over the merits of direct and parliamentary democracy, as set out by Edmund Burke to the electors of Bristol in the 18th century. But at the most basic level, European politicians are not talking about avoiding referendums in terms of such principles. They are talking about the merits of obfuscation as a means of avoiding referendums. That is wrong.

Working by stealth is a bad habit if you believe in good governance. Telling voters you are being stealthy to avoid consulting them is disrespectful (Burke talked of using his judgment to represent voters, not of devising unreadable texts to bamboozle them). It is also hubristic. The Bond films offer another lesson here. Whenever the evil genius gloats “you have interfered with my plans for the last time, Mr Bond,” viewers know that a painful come-uppance is on its way. Filmgoers like hubris to be swiftly punished. EU leaders should take note.

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Agriculture

Life on the land

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Getty Images

Despite the summer's plagues, farming looks surprisingly healthy

GORDON BROWN has not been short of crises since becoming prime minister, with everything from incompetent terrorist plots to record-breaking floods to contend with. The most recent began on August 3rd, when cows at a farm near Guildford, in southern England, tested positive for foot-and-mouth disease, a contagious and debilitating sickness that mainly affects cloven-hooved animals.

Britons, an urban people, do not as a rule know much about the ailments of livestock, but foot-and-mouth is an exception. The previous outbreak, in 2001, was disastrous. Government inaction allowed the disease to spread so far that, when steps were at last taken to halt it, large swathes of the country had to be closed off. The sheer quantity of animal corpses, slaughtered to halt the spread of the disease, meant that the army had to help with their disposal atop vast, smoking pyres. The total cost, including compensation, was eventually put at around £8 billion ($16.2 billion, at today's exchange rates).

This time things look very different. As *The Economist* went to press, the infection seemed confined to two farms in Surrey, with a third being tested. The confusion that helped the 2001 crisis to spiral out of control was absent. The Department for Environment, Food and Rural Affairs (successor to the Ministry of Agriculture, Fisheries and Food, which, along with the cows, did not survive the previous outbreak) quarantined the farms immediately. Sick animals were culled, livestock movements were banned (though later relaxed) and exports halted. Mr Brown cut short his holiday to convene the government's snazzily-named COBRA emergency committee. Even the European Union praised the government's promptness.

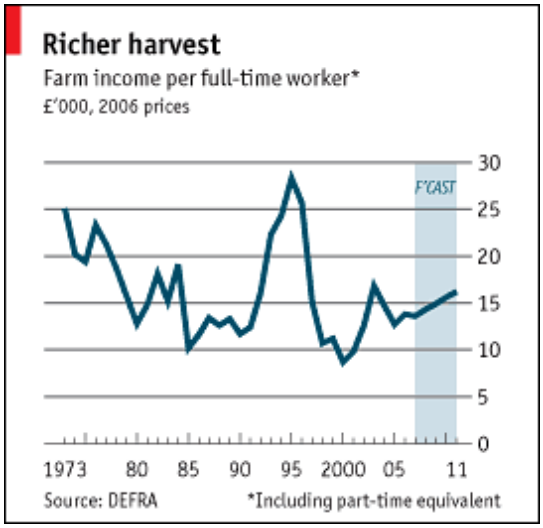
The working hypothesis is that the virus escaped from a nearby biological laboratory, where it is used in research and in the manufacture of vaccines (see article). The strain found in the Surrey cows is an unusual one, and matches exactly a variant used at the laboratory.

Although the outbreak seems to have been contained, it has caused plenty of trouble for British livestock farmers. With animal movements banned, the meat business is at a standstill. Trade shows and farmers' markets are empty; only abattoirs have reopened. The English Beef and Lamb Executive reckons the export ban—which will be lifted three months after the last case of the disease is confirmed—is costing the industry £10m a week.

The foot-and-mouth outbreak is the latest in a series of well-publicised setbacks for farmers. Chaos last summer at the Rural Payments Agency, charged with distributing £3 billion of European agricultural subsidies, prevented thousands from receiving their cash. This year's flooding has drowned crops and spoiled harvests: officials reckon that up to a third of Britain's pea crop was ruined, and potato and

broccoli harvests have suffered too. Even the public has turned against farmers, opposing a call by the National Farmers' Union (NFU) for a cull of badgers which, the NFU says, transmit tuberculosis to cattle.

Yet despite this dolorous litany, farmers have been doing fairly well in recent years. Agriculture is, notoriously, a boom-and-bust industry, and the general trend over the past few decades has certainly been downwards. A boom in the mid-90s, fuelled by a happy alignment of weak sterling (which boosted the value of subsidies from the EU and helped exports) and high commodity prices, ended abruptly as the pound recovered and BSE, another cattle disease, flared up. But farm incomes today are 59% up from their recent nadir in 2000, and they rose by around 7% last year. Officials were reckoning recently that they would keep rising for several years.



Those predictions were made before the floods and the appearance of foot-and-mouth disease, but there are, nevertheless, good reasons for optimism. British agriculture is resilient. Average farm incomes grew nicely in 2001, despite the severity of the foot-and-mouth outbreak, and that is without counting the enormous £1.1 billion in compensation (equal to around half the industry's total income that year) that the powerful NFU managed to get for those affected. Indeed, for all the wailing, the brunt of the cost was borne not by farmers but by other rural businesses, such as pubs and hotels, which were not compensated for trade lost while the countryside was closed to the public.

Despite recent blows, farming is in reasonably good shape these days. That is partly down to tight supply in the world market, says Carmen Suarez, chief economist at the NFU, citing the drought in Australia, which is a big agricultural producer. Others point to America's new-found enthusiasm for biofuels, which is diverting land from food production to fuel-making. Demand is rising, too, thanks to rapidly growing incomes in India and other countries in Asia: as people get richer, they consume more animal-based protein, which means either meat or milk products.

The upshot has been a boom in the prices of agricultural commodities, with dairy products rising as much as 60% since the start of this year and wheat at an 11-year high. Commodity prices take several months to feed through to farmers themselves, admits Sean Rickard, a lecturer at the Cranfield School of Management, but “if you combine biofuel production with growth in the Far East, there's every reason to believe that agricultural markets will be tight for quite some time.”

Of course, averages disguise as much as they reveal, and news of high food prices will be scant consolation to those farmers worst hit by flooding or foot-and-mouth. But even here there is a silver lining. “Income is only one measure of prosperity,” says Mr Rickard. “You've got to consider asset wealth as well.” Agricultural land prices are rising fast, and have risen by around 50% since 2003, thanks to confidence in the industry's future and to rich-but-disillusioned City slickers looking for a slice of rural idyll to retire to, or at least to spend their weekends in. Foreigners are taking an interest too, with farmers from other parts of Europe attracted by prices lower than those at home. For any British farmer thinking of selling up, now looks like a tempting time.

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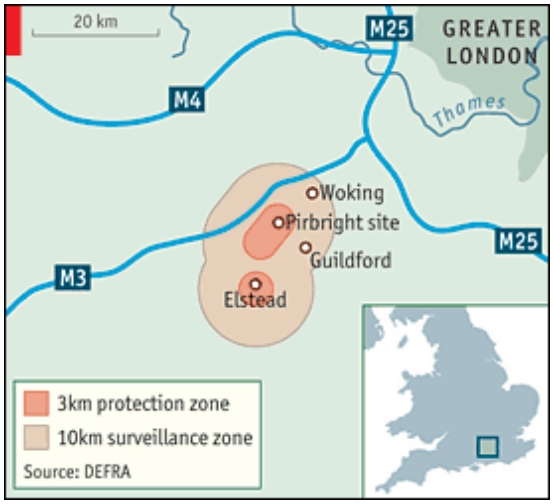
Foot-and-mouth disease

Own goal

Aug 9th 2007
From The Economist print edition

Vaccines may prevent an epidemic. They may also have caused this outbreak



BRITONS' most searing memories of their encounter with foot-and-mouth disease in 2001 are of the piles of animals slaughtered to try to stop its spread. Such a draconian policy might have been accepted had the disease been controlled quickly. But its ineffectiveness—more than 6m cows, sheep and pigs were culled before the disease was eradicated—led to widespread revulsion and a government rethink.

Just as in 2001, if an animal is thought to be infected, its herd will be culled and a quarantine zone set up (see map). But this time, unless the disease is stamped out quickly, animals nearby will also be vaccinated to create a “fire-break” across which it is unlikely to travel. Already 300,000 doses of vaccine have been ordered, so that if government vets decide that slaughter alone is unlikely to be effective, they can start vaccinating straight away.

Humans almost never catch foot-and-mouth and it rarely kills the cloven-hooved beasts it affects. But animals produce less milk and meat, so its economic effects are severe. It is also highly contagious: infected livestock produce the virus that causes it in large quantities, and transmit it through saliva, mucus, milk, faeces and even droplets in their breath.

Even so, only countries where foot-and-mouth is endemic, as in parts of Latin America, vaccinate all animals. One reason is cost: the disease is caused by a virus with seven main types and tens of sub-types, with a targeted vaccine needed for each strain and shots repeated, perhaps as often as twice a year. It is also because vaccinating damages exports. Places that are free from foot-and-mouth are unwilling to import vaccinated beasts, or fresh meat from them, because they may still carry the disease.

The fear of being shut out of foreign markets led to the British government's disastrous foot-dragging over vaccination in 2001. But that same year an outbreak in the Netherlands involving 26 farms was brought under control in just one month by vaccinating 200,000 animals. Though healthy, these beasts then had to be culled so that farmers could return to exporting without restrictions as soon as possible.

Not even eternal vigilance on imports can keep a country free of foot-and-mouth disease: the latest outbreak was apparently caused by a breach of bio-security at the Pirbright laboratory complex in Surrey, where government researchers keep the live virus for vaccine research and Merial, an American animal-health company, manufactures vaccine for export. Human action, accidental or deliberate, seems likely to have been involved.

Ironically, one reason for eschewing vaccination is that although it provides the best hope of dealing with

outbreaks, maintaining the capacity to produce vaccine is itself a risky business. Many earlier episodes of foot-and-mouth in countries normally free from the disease have been caused by laboratory escapes; in 1970 a leak from Pirbright's isolation facilities was fortunately contained.

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Heathrow hell

Britain's Awful Airports

Aug 9th 2007
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Another summer of delayed flights, lost bags and moaning about Heathrow

"NOT fit for purpose" is a curiously British phrase, hauled out only *in extremis* and as good a sign of despair as any. Until recently it was most often applied to the government and all its works: the Home Office, NHS reform, the country's drug policy. Now it is being hurled at Heathrow, Europe's busiest airport.

Heathrow-bashing has long been an English pastime, but it has gained a new shrillness of late. The *Daily Telegraph* preposterously claimed that using Heathrow was more stressful than being mugged at knifepoint. Ken Livingstone, London's mayor, accused the airport of keeping people "as prisoner" in its "ghastly shopping mall". Even the level-headed Kitty Ussher, the government minister responsible for promoting the City of London, gave warning that the "Heathrow hassle" could harm competitiveness. Heathrow seems to stumble from one disaster to another.

Strikes, inclement weather and security scares have all added to the frustrations of navigating its jammed corridors. Yet even when things are ostensibly running smoothly, it is, of all Europe's airports, the one most prone to delay: almost a third of its flights to European destinations leave late. Nor, despite acres of overpriced shops and slow-food joints, does Heathrow keep people happy while they wait, so it consistently ranks near the bottom in passenger surveys.

Although the Heathrow experience has never been particularly good, mainly because the airport crams 67m passengers a year through facilities designed for 45m, the crescendo of complaints suggests that it is going from bad to worse. That may not be right: security queues (which are meant to last no more than ten minutes at least 95% of the time) jumped in August of last year after the government tightened security in response to an alleged plot to blow up passenger jets over the Atlantic. They have fallen since then, the Civil Aviation Authority (CAA) maintains, as staff have been added and extra security lanes opened. Terminal 3, the worst offender, now meets its target 94% of the time, from 78% in January—though some travellers will find this hard to believe.

So why, if Heathrow is improving, is it being rounded on now? Apart from the fact that August is a slow month for news, one reason is that it was bought last year by Grupo Ferrovial, a Spanish firm that borrowed to do the deal. Jingoists fuss that a key piece of national infrastructure was sold to a foreign firm. Those with a financial bent fret that badly needed investment in new runways and terminals may be further delayed if Heathrow's new owners, hit by rising interest rates, have to pinch pennies to repay their loans.

Another reason is that the airport's future is up for grabs right now. The Competition Commission is looking at whether BAA's ownership of all three of London's main airports (in addition to Heathrow it owns Stansted, Gatwick and four others farther afield) has stifled competition. David Starkie, an economist and a longstanding critic of BAA's market dominance, reckons that some of the denigration of Heathrow may be the result of "an orchestrated campaign to influence the commission's outcome" by those who want to see the firm broken up.

Airlines have an added reason to talk down Heathrow: another regulator, the CAA, is deciding the maximum landing fees that BAA can charge at Heathrow and Gatwick for the five years from 2008. Airport users have a clear incentive to lambast BAA for misdirected investing, profiteering and managing its airports badly, for they want regulators to keep landing fees low.

It seems increasingly likely that next summer the Competition Commission will propose breaking up BAA and ending its stranglehold on London. But still more radical proposals are also being aired. The Town and Country Planning Association calls building Heathrow on the edge of London "one of the country's truly great planning catastrophes" and pleads for a new airport somewhere with more space. Yet this may be asking too much. If Britain's politicians were capable of such foresight, Heathrow, one imagines, would today be "fit for purpose".

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Britain, Iraq and America

Blowback

Aug 9th 2007
From The Economist print edition

Britain's troubles in Basra, and in Washington

Get article background

A FEW years ago, when the situation faced by their American allies in Baghdad was already gruesome, the British forces responsible for maintaining order in southern Iraq seemed to be doing pretty well. The overwhelmingly Shia, oil-rich region around the city of Basra was relatively calm, and the softly-softly, berets-not-helmets British patrols seemed to compare favourably with the American approach. The success faded some time ago; this week, the alliance was looking rusty too.

An American official in Baghdad told the *Washington Post* that the British had “been defeated” in the south; other unnamed officials criticised the possibility of a British withdrawal from Iraq before the Americans themselves go. The official British line is that Basra is not a disaster—judged by reasonable criteria—and that the decision on when the troops leave will be governed by (British) military advice. A first step, in the next few months, will be to quit Saddam's old palace and withdraw the 5,000-odd British troops that are left to the base at Basra airport.

It is odd that the Americans should be bad-mouthing British efforts since only last week, when he met Gordon Brown, George Bush praised the “progress” Britain had made in the south. It may be that Mr Brown's studied ambiguity about his plans for Iraq worried the Americans; or they may be reacting to his relative coolness towards Mr Bush. Those looking for signs of a rift spotted another one in the British government's request, on August 7th, that five men once resident in Britain (though not British subjects) be returned to the country from Guantánamo Bay. The government had previously refused to intervene in their cases; it says the changed policy is a pragmatic step towards the eventual closure of the prison.

It would be rash to conclude, on the basis of some anonymous briefings, that Anglo-American relations are strained. A firmer inference is that the way politicians talk about the state of Iraq reflects domestic politics more than the reality on the ground. The truth is that Basra has for some time been wracked by internecine militia violence only somewhat less appalling than the strife that prevails in the rest of the country. Some British top brass would indeed prefer to concentrate on Afghanistan.

An embarrassing sign of how lawless the south now is came this week when a row erupted over Iraqi interpreters who have worked for the British. Straight after the invasion, that was a profitable occupation; these days, it is a potentially fatal one, since, as elsewhere, anyone who works with the “occupiers” risks assassination. But unlike some other countries that have soldiered in Iraq, the British seem to have offered no special resettlement privileges to their employees. Officials have insisted that those who wish to seek asylum in Britain go through the usual process.

Under pressure from the Conservatives and others, the government said this week that it would review its policy towards its Iraqi assistants. Reviews have become a standard means of climb-down and obfuscation for Mr Brown; but, at least with the decision on when to leave Iraq, such prevarication cannot last forever.

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Snap election

Pre-emptive strike

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From The Economist print edition

The prime minister contemplates an early poll

Gordon Brown

GORDON BROWN recently ditched plans to build a super-casino in Manchester, but most people already knew he was no gambler. The prime minister's reputation for caution has been around far longer than the reputation for competence he earned as chancellor.

It seemed unlikely, therefore, that Mr Brown, who need not call an election until May 2010, would choose to go to the polls within a few months of entering Number 10. After all, there are few riskier gambits than the snap election. Prime ministers have tried their luck and lost before.

Nor, when he replaced Tony Blair in June, did Mr Brown's electoral prospects seem especially good. Labour had won only 27% of the vote in English local elections the month before and had lost power in Mr Brown's native Scotland. Opinion polls were discouraging. And though British election campaigns are shoestring affairs compared with America's profligate contests, money also seemed a problem. The Labour Party's £26m debt appeared to rule out a campaign any time soon.

Six weeks on, a snap election would still be a surprise, but no longer a shock. Mr Brown has had the bounce in popularity that greets most new prime ministers. Labour now leads the Tories in the polls, and voters rate Mr Brown above Mr Cameron on most qualities except charisma. Last week it was reported that Mr Brown had told his party to prepare for an election as early as the autumn. This may be a precaution, but senior Tories take it seriously.

It is not that Mr Brown has become any less cautious, but that the cautious thing to do may now be to exploit his popularity while it lasts. Rising interest rates could mean a grumpier electorate by next year, and the expected squeeze on public spending could trigger pay disputes. Meanwhile, one of the Tories' biggest problems—their lack of detailed policies—is likely to be corrected with time. The working groups set up by Mr Cameron at the end of 2005 to develop ideas are reporting back in reams.

As for the financial obstacles to a snap election, those who know Westminster insist that donors write cheques when they are really needed. Labour's may be more forthcoming now that the cash-for-peerages investigation has ended without any charges being brought; and a swift campaign would in any case limit the amount that needs to be raised.

But whereas some commentators think an early election would suit Mr Brown—even though his party is trailing the Scottish Nationalists north of the border and could lose some of its 39 seats there—others question whether the country needs or wants one. The government, with its 69-seat majority, is stable. Most people tell pollsters that they want an early chance to vote on Mr Brown, who wasn't challenged even for the Labour leadership, but the clamour is hardly overwhelming.

The speculation has, however, provoked calls for another look at whether Britain's prime ministers should have the power to call an early general election. Some MPs reckon that fixed terms would avoid the spectacle of incumbents timing elections to maximise their chances of victory, which does little to counter public cynicism about politics. Businesses and investors, not to mention the civil service, might find it easier to plan ahead if they knew a change of government could occur only every four years, say, as in America, most of Europe and—indeed—in various corners of Britain.

Defenders of the current system cite the advantage of letting weak governments seek a fresh mandate rather than stumble along. But this flexibility need not be a casualty of reform. Tony Wright, who chairs the parliamentary committee on public administration, introduced a bill in 2002 that mandated fixed terms but also allowed for snap elections if a government lost the confidence of the House of Commons, with measures to prevent those in power from concocting bogus no-confidence votes to trigger an election.

Mr Wright did admit that one group would lose out, however: journalists who indulge in “speculative nonsense” about election dates. But “to be deprived of the product of their labours”, Mr Wright suggested, “is a cross that we should all just have to bear.”

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Scottish politics

Shadow and substance

Aug 9th 2007 | EDINBURGH
From The Economist print edition

The nationalist government is making changes, but cautiously

RECENT visitors to Scotland will have noticed something new as they drove up the A1 through Berwick-upon-Tweed and across the border. Where once an obscure and oft-vandalised notice marked the crossing point, a huge "Welcome to Scotland" sign (in English and Gaelic) now stands, along with three big flagpoles each flying the Saltire, Scotland's national flag. But this is no defiant flourish of the devolved government that is now led by the Scottish National Party (SNP). Ordered long before the nationalists came to power in May, the sign is merely a response by the company which maintains the road to complaints that visitors had nothing suitably impressive to photograph on arrival.

Similarly, the flurry of giveaways announced by Alex Salmond, the SNP first minister, are not quite all they seem. Plans to close two hospital accident and emergency units have been shelved and a health-service pay award has been implemented earlier and more fully than in England and Wales. Tolls will be removed on two busy road bridges and council tax frozen for the next three years. School-class sizes will be cut for the youngest children and Scottish university students will no longer be charged £2,000 on graduation. "The presentation of the SNP government has been so good, the media have given them credit as if they have carried them all out," laments Ross Finnie, a Liberal Democrat minister in the former administration. "In fact...they have still got to deliver on most of these things."

With only 47 seats, Mr Salmond's minority government must cobble together a coalition on every issue to gain the 65 votes he needs to push his policies through the 129-seat Scottish parliament. So he has spent his summer in hard bargaining to secure support for his yet-to-be-announced legislative programme. Despite an SNP ban on deals with the Tories, he has accepted some of that party's ideas on dealing with sex offenders, such as publicly naming those who break court-imposed restrictions, to get a criminal-justice bill passed. The Tories are delighted. "We are no longer the pariahs of Scottish politics," says one MSP.

Once over the hurdle of getting the votes, Mr Salmond will have to pay for his populist plans. Underspending by his predecessors—the Treasury in London holds about £1.5 billion of unspent cash due to Scotland—gives him some room for manoeuvre. But the prime minister, Gordon Brown, is planning public-spending cuts, so money for some of the bigger SNP ambitions, such as re-introducing student grants, will be hard to find.

Mr Salmond's handouts have been popular; a poll in June suggested that support for his party had gone up by five points since the election. And a spat over Tony Blair's failure to tell him about a British-Libyan agreement to talk about prisoner exchanges has also met with public approval. (Abdelbaset Ali Mohmed al-Megrahi, the Libyan bomber of an American airliner which crashed on the Scottish town of Lockerbie in 1988, is held in a Scottish jail.)

Yet expectations that such rows would dominate relations between London and Edinburgh have been confounded. Mr Brown, a Scottish MP, has been at pains to involve Mr Salmond and his colleagues in emergency meetings following the recent outbreak of foot-and-mouth disease and earlier terrorist attacks in Glasgow and London, perhaps because he is attuned to his countrymen's sensitivities. Meetings between SNP and Labour ministers have also gone well, with compliments flying in both directions.

This civility will soon be tested, however. On August 14th Mr Salmond is to publish a consultative white paper on Scottish independence, arguing for a long national debate leading up to a referendum on the matter. An aide says that it will set out the SNP's preferred positions, but will also acknowledge other ideas, such as the Liberal Democrats' dream of a federal Britain in which Scotland would have greater powers, especially over taxation. It sounds like a typical example of Mr Salmond's adroitness: advancing his own agenda, but not so far that other parties cannot be enticed along.

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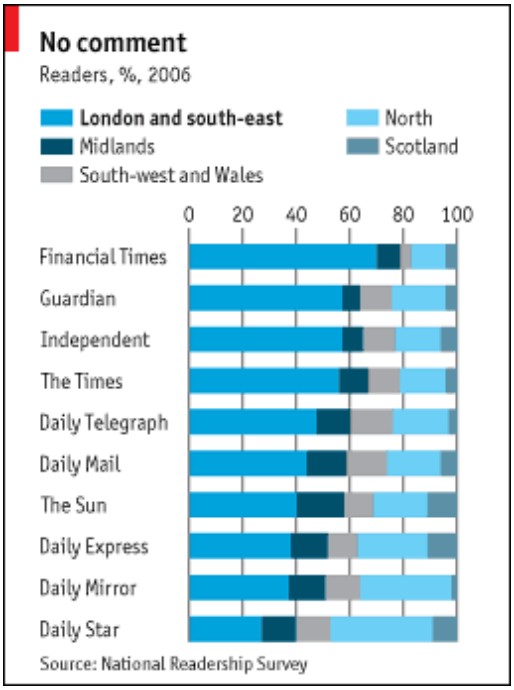
News from the regions

Magnetic south

Aug 9th 2007 | KINGSTON UPON HULL
From The Economist print edition

National newspapers have long focused on London. Now, so do regional ones



IT IS roasting weather and the school holidays are in full swing, but the merry jingle of an ice-cream van is met with silence on Hull's Bransholme estate. Six weeks after the area suffered disastrous flooding, many families have moved away while their sodden homes dry out. Others are confined to upstairs rooms or are living in caravans on the street.

It is a scene that for several days went overlooked. The floods that hit southern England a month after Yorkshire's inundations generated many more newspaper column inches, despite damaging fewer homes and killing fewer people. “Disasters aren't serious unless they happen in the south,” huffed the *Yorkshire Post*. Nooks such as Thorngumbald, where water is pronounced watter, were too far for London-based reporters to venture, some whispered. Those who did go north tended to stop in South Yorkshire, where the damage was less widespread but more telegenic. “Sheffield had a proper torrent. Our water just sat there,” says one glum Hull victim.

Hull was pushed off the front pages by other big news that week, including a new prime minister and terrorist attacks in London and Glasgow. But it is not the first time the national media have been accused of southern bias. In small, centralised Britain, all the big national papers—including *The Economist*—are based in London (as are many of their readers—see chart). By contrast, federal countries including America, Germany and Australia have a national press which exists almost entirely outside the capital.

News from northern England is harder to sell than stories from the south, according to Robert Torday of ING Media, a London PR firm hired by Hull to get its flooding story back in the headlines. Hull and some other northern cities are experiencing an identity crisis brought about by the decline of the manufacturing industries that once kept them going, he suggests. National newsdesks realise that the old cobbled-streets stereotype is out of date, but are not sure what has replaced it.

Lean times in the news business have not helped, forcing most papers to cut back on correspondents outside London. Fewer reporters writing more copy (to fill supplements and now websites) has increased reliance on news agencies and press releases, at the expense of scoops from Thorngumbald and other quiet corners.

Now it seems that regional newspapers are doing the same thing. “The local press isn't local anymore,” says Bob Franklin of Cardiff University, who claims the papers are increasingly borrowing national stories and giving them a local spin. Editors insist that they are still locally focused. But Mr Franklin has analysed coverage of general elections by 30 West Yorkshire newspapers since 1987. Back then nearly three-quarters of election stories were pieces about local candidates and campaigns. By 2005 this had fallen to barely a third, with the remainder made up of reworked national stories. This exacerbates London-centricity nationwide, since national papers rely on local ones to feed them regional snippets.

The decline of local-newspaper training schemes is further separating national papers from their regional rivals. A generation ago, most national reporters trained on a local paper and then rose through the ranks. Now, even local freesheets expect cub reporters to pay for their own training in shorthand and the like. Bright sparks have little incentive to toil on the regional circuit before aiming for Fleet Street.

Big companies such as Trinity Mirror, which owns more than 200 local papers as well as the national *Mirror* titles, still form feeder chains of news, Mr Franklin points out. Still, he fears, “when you get to the news conference there may not be many people thinking, ‘Gosh, what's happening in Rochdale?’”

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Bagehot

Summer in the noughties

Aug 9th 2007
From The Economist print edition

Illustration by Steve O'Brien

Like the English themselves, the English summer has changed yet stayed the same

NOT long ago, on one of the less rainy afternoons of what has passed for summer in England this year, Bagehot found himself at a glamorous London garden party. There was Pimm's; there was a string quartet; there were elaborate hats. As he strolled on the well-kept lawns, eavesdropping on the upper-crust chatter, Bagehot reflected on the centrality of summer to England's idea of itself, despite the fact that, meteorologically speaking, there often isn't much of it—and on how the elusive season was changing, and what those changes meant.

Racing at Goodwood and Ascot; strawberries at Wimbledon; cricket at Lord's; the Henley regatta; the Chelsea flower show: such are the ancient fixtures of the English summer, and they embody some of the key features of the nation's character. The English, they suggest, enjoy riding and betting on animals, and occasionally killing them. Opera at Glyndebourne and the Royal Academy's summer exhibition notwithstanding, the English are not very intellectual. They like dressing up, boozing and the challenge of organising a picnic during a hail storm. And England, as George Orwell observed, is “the most class-ridden country under the sun”, or the umbrella: with their nuanced enclosures and exclusive marquees, most of the traditional summer events still offer lots of opportunities for the toffs to sequester themselves from the oiks, and for everyone to ogle the royal family.

But there are new summer fixtures too, as telling as the old ones. Reflecting the anxieties of globalisation, an annual furore now erupts over the efforts of a foreign potentate or billionaire to buy an English football club. Praise is heaped on pupils for their ever-improving exam results, followed by scorn on politicians for making the exams too easy. Huge numbers of people stand in the mud at the proliferating music festivals, many of them thirtysomethings housed in heated tepees—reflecting the decline of counterculture or the elongation of youth, depending on your point of view. And, perhaps because summertime attacks offer the chance of maximum disruption, there is terrorism. This year, there were the failed car-bombings in London and Glasgow; last year, it was the alleged plot to blow up planes over the Atlantic; in 2005, the multiple lethal explosions of July 7th.

Because of that the English, like others, have acquired a new summer diversion: the airport obstacle course. They traipse around the terminals with their toiletries in transparent bags, grumpily take off and put on allegedly weaponisable clothing, and argue over the stingy hand-baggage allowance. Their destinations, if they get to them, have changed too: the Mediterranean is still top, but affluence, the internet and one-upmanship have made exotic places such as Cambodia and India more popular and encouraged new, niche holidays devoted to cookery, yoga, adultery and so on. Notwithstanding their Euroscepticism, ever more English people—some of them refugees from the property-price spiral at home—are investing in pads abroad, increasingly in once-obscure countries such as Bulgaria and Slovenia

that geopolitics and no-frills airlines have opened up. The no-frills planes themselves have becoming interesting laboratories of Englishness, where tribes that ordinarily never cross paths—the bargain-hunting haute bourgeoisie and sun-and-sangria proletarians—awkwardly rub up against each other.

The darling buds of May

The English summer holiday also seems to be lengthening, with better-heeled Londoners emulating the French by relocating to Provence or Umbria for the whole of August. But not Britain's prime minister.

Like the lies they choose to tell, politicians' holiday plans are illuminating. France's Nicolas Sarkozy has meaningfully gone to America; Bill Clinton once went to Wyoming on the advice of his pollster. A bonus of the long-ago premiership of Tony Blair was the annual chance to watch him frolic with whichever superannuated rock star or compromised foreign leader he had visited his family upon; John Prescott, his malapropistic deputy, who ran the country when Mr Blair was away, used to offer an entertaining sideshow. By contrast, Gordon Brown, previously known to holiday in Cape Cod, this year went to Dorset, in western England, then came back after a few hours when foot-and-mouth disease broke out.

Mr Brown's choice was designed to convey an impression of modest seriousness. People seem to have a taste for this austerity, even if few are as yet willing to give up their own foreign jaunts. But terrorism (and the resulting hassles), and climate change (with the attendant taxes, and long-term warming of the British climate) may change that. The future English summer may resemble the past one, when much of the country decamped for a week or two to the seaside towns that flourished from the Victorian era until the 1970s, when cheap air travel strangled them. They were places with improbable names such as Bognor and Skegness, with bandstands and piers, shooting galleries and waxworks, donkeys and Punch-and-Judy shows, many of which, now decrepit, resound for the moment more with the tap of retirees' walking sticks than with dancing shoes.

Yet the end-of-the-pier spirit has never gone away, even if many of the piers themselves have crumbled into the sea. The strawberries-and-Pimm's version of the English summer—like the safaris that no Africans take, or the Outback in which few Australians live—is so quintessential that it is really a bit of a fraud (at that glamorous party that Bagehot went to, not many people were actually English). The truly defining characteristics of the English in summer are the opportunism and improvisation they display when the sun shines, and these have been on show on this summer's few hot days. Like animals around a watering-hole, the English throng to murky ponds and grimy beaches, getting sunburned and wearing ridiculous shirts.

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Economist.com WORLD INTERNATIONAL

Globalisation and health

The maladies of affluence

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AFP

The poor world is getting the rich world's diseases

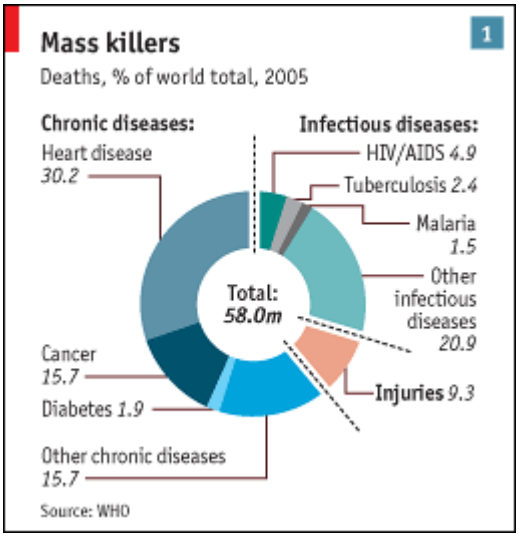
IN 1619 an English captain sailing past Cape Cod reported that the Massachusetts shore was “utterly void”. The Indians “died in heapes as they lay in their houses” confirmed an English merchant. By killing much of the population of the Wampanoag confederacy, the epidemic that raged from 1616-19 made possible the first permanent European settlement in north America, that of the Pilgrim Fathers in 1620. The Indians had caught the illness, thought to have been viral hepatitis, from prior contact with Europeans, probably captured French sailors.

Europeans have been exporting their maladies throughout history. They seem to be doing it again, but in a new way. In the past, the problem was infection. Now, illnesses associated with Western living standards are the fastest growing killers in poor and middle-income countries. Chronic disease has become the poor world's greatest health problem.

For many in the West, diseases are a bit like birds: everyone gets them but poor countries have more exotic species. Rich-country maladies are things like heart disease, cancer and diabetes: “chronic” conditions often resulting from diet or physical inactivity. Developing countries suffer more lurid and acute infections: malaria, tuberculosis, measles, cholera. HIV/AIDS is unusual in that it affects rich and poor alike. But otherwise, poor countries are presumed to have their own health problems. The sixth of the United Nations' millennium development goals (a sort of ten commandments of poverty reduction adopted in 2000) is concerned with infections only—the ailments of poverty. The progress report issued last month half way through the millennium programme's 15-year course tracks HIV/AIDS, malaria and tuberculosis. Combating chronic disease is not part of what the UN calls its “universal framework for development”.

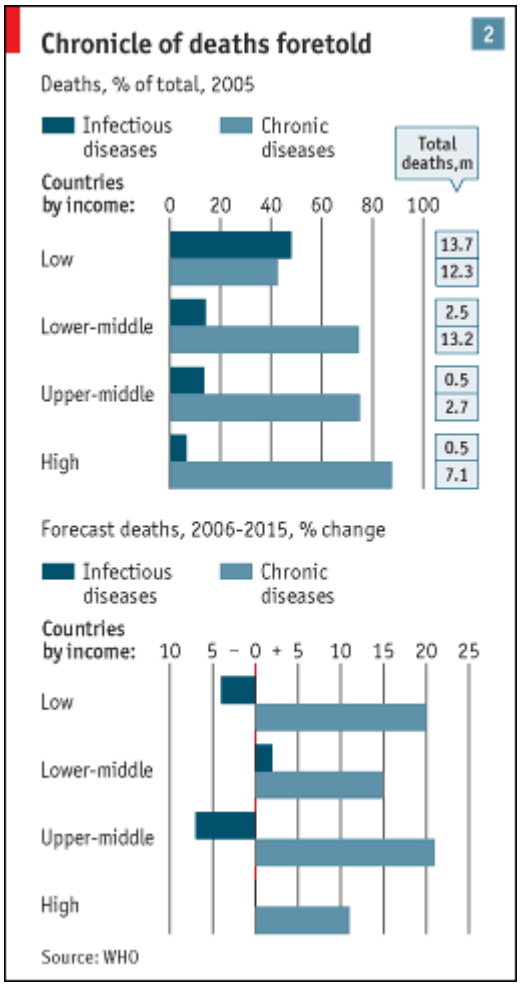
Yet the distinction between illnesses of affluence and illnesses of poverty is misleading as a description of the world and doubtful as a guide to policy. Heart disease—supposedly an illness of affluence—is by far and away the biggest cause of global mortality. It was responsible for 17.5m deaths worldwide in 2005. Next comes cancer, another non-infectious sickness, which caused more deaths than HIV/AIDS, tuberculosis and malaria put together (see chart 1). Chronic conditions such as heart disease took the lives of 35m people in 2005, according to the World Health Organisation (WHO)—twice as many as all infectious diseases.

If you look at lower-middle income countries, such as China, or upper-middle income ones, like Argentina, you find that what kills people there is the same as in the West (see chart 2). Four-fifths of all deaths in China are from chronic sicknesses. That is also true of countries as varied as Egypt, Jamaica and Sri Lanka.



The main difference between these countries and rich ones is that chronic illnesses are more deadly there. Five times as many people die of heart disease in Brazil as in Britain, though Brazil is not five times as populous. Rich countries have become better at dealing with chronic conditions: death rates from heart disease among men over 30 have fallen by more than half in the past generation, from 600-800 per 100,000 in 1970 to 200-300 per 100,000 now.

This has not happened in middle-income countries. In 1980 the death rate for Brazilian men was below the rich-country average (300 compared with 500-600). Its death rate has not changed—and is now higher than all but a few rich countries. Russia is worse off. In 1980 its death rate was 750 per 100,000. Now it is 900, about four times as high as most rich countries.



It may not seem surprising that upper-middle income places such as Russia suffer from “Western” ailments. But chronic diseases are mass killers in the poorest nations, too. Indeed, the only unusual thing about these countries is that they suffer from infections as well as chronic disease: a double burden. Chronic diseases were responsible for over 12m deaths in countries with annual incomes below $750 a head in 2005—almost as many as were caused by communicable ones. Africa is the only continent where infectious illnesses cause more deaths than the non-communicable kinds.

Chronic diseases are becoming deadlier and more burdensome to the poor. By 2015, says the World Bank, these ailments will be the leading cause of death in low-income countries. They already account for almost half of all illnesses there and impose substantial economic costs.

People in poor countries get chronic diseases younger than in the West. There, chronic conditions bear heavily upon the old. Not so in poor and middle-income nations. Death rates for those between 30 and 69 years of age in India, Russia and Brazil are two or three times higher than in Canada and Britain. Almost half of deaths from chronic problems in developing countries occur in people below 70.

As a result, the poor suffer from chronic illnesses longer and are more likely to die of them. The death rate from chronic disease in poor countries is obviously higher than in rich countries; more surprisingly, it is often higher than the death rate from infections. India, Pakistan, Nigeria and Tanzania all have roughly the same death rate for cardiovascular disease: 400 per 100,000. That is at least twice as high as the Western norm and, at least in India and Pakistan, more than four times the average death rate from

infections (in Nigeria and Tanzania, HIV/AIDS, malaria and tuberculosis are still deadlier).

Chronic disease bears down especially hard on working adults, imposing a heavy economic burden. Families in poor countries are much more likely than in the West to spend their savings looking after a chronically ill relative, or to pull children out of school to act as nursemaids.

In short, developing countries suffer more from “rich world maladies” than the rich world itself. Overall in 2005, only a fifth of deaths attributable to “illnesses of affluence” (chronic conditions) actually took place in the most affluent nations. Three-quarters happened in poor or lower-middle-income ones.

Death eaters

Why are poor countries so vulnerable to the diseases of the rich? And why does public attention and aid money ignore them and focus on infections?

The simplest explanation for chronic diseases' increasing importance is that people in poor countries now live long enough to suffer them. Thanks to better sanitation, more food and improved public health, average life expectancy in low and middle-income countries has risen from 50 in 1965 to 65 in 2005. The increase in the poorest countries was proportionately greater: from 47 to 63. There are now more old people around to be vulnerable to chronic maladies.

At the same time, because of increased health spending and safer water, infectious diseases have declined relative to chronic ones. International financing for malaria control has increased more than tenfold in the past decade. The Bill and Melinda Gates Foundation, with its $33 billion endowment, concentrates largely on infections. As a result, the incidence of tuberculosis, measured by the number of new cases per 100,000, has fallen slightly. In Africa fatal malaria cases among children under five (the main victims) fell between 1960 and 1995, though the decline has since levelled off. The WHO reckons that deaths from infections will decline by 3% over the next ten years. So more people in poor places will survive infections in their dangerous childhoods to reach an age when they are susceptible to heart attacks and cancer.

Since chronic disease among the poor is not the preserve of old age, another part of the explanation for its increasing importance must lie in the harmful things middle-aged folk do. Of these, smoking and unhealthy eating are most important.

Around 300m Chinese men smoke. In China, Egypt, Indonesia and Russia, people spend 5-6% of their household income on cigarettes—far more than the share in rich countries. Smoking and its associated ailments are still rising in poor countries, even while they fall in rich ones.

Middle-income countries are also experiencing extraordinary levels of obesity. According to one study, half of all households in Brazil contain at least one obese person; the share is three-quarters in Russia. According to another, Mexico is the second fattest nation among the 30 (mostly rich) countries of the Organisation for Economic Co-operation and Development, after America. It has the highest rate of diabetes among large countries, with 6.5m diabetics in a population of 100m. Not coincidentally, Mexicans are among the biggest swiggers of fizzy drinks in the world. Coke and tacos, anyone?

Obesity affects rich countries, of course: it is a symptom of affluence and urbanisation. But it is occurring much earlier than anyone had expected in middle-income places. Obesity among children there used to be unheard of. Last year China's vice-minister for health, Wang Longde, said more than a fifth of Chinese children between seven and 17 who live in cities are overweight—a proportion that presumably reflects not only the wealth of China's urban elite but the amount of money they lavish on their “little emperors” (the single children they are limited to by China's one-child policy).

Yet despite all the evidence that chronic disease is the world's biggest health problem, most poor countries focus on infectious disease and their health policies are usually based on the idea that infections should be controlled before chronic conditions. These choices no doubt partly reflect bureaucratic inertia at health ministries and investment in fighting infections by medical charities and drugs firms.

Not just statistics

It is true that there are better reasons why poor countries might want to concentrate on infections despite the growth of chronic disease. Infectious illnesses are usually simpler to deal with than chronic ones, requiring inoculation campaigns rather than long-term care, changes of lifestyle and the uphill work of public education. Moreover, if you inoculate a child against malaria, you considerably reduce his or her chances of dying from that disease, since most deaths from malaria occur among children under ten. If you lower someone's risk of getting a heart condition at 50, you might well find they get it at 60. The disease can only be managed.

Still, it can be managed better: the contrast between death rates from heart attacks (falling in the West, rising elsewhere) shows that. Stalin said a single death is a tragedy, a million deaths, a statistic. But millions of avoidable deaths are millions of tragedies. Chronic disease is already the biggest problem for poor and middle-income countries. To concentrate so much on infections is to add to the health burden of the next generation in what are already the world's poorest, unhealthiest places.

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America's car industry

The road to recovery

Aug 9th 2007 | DETROIT AND LONDON
From The Economist print edition

Illustration by Claudio Munoz

Profits at General Motors and Ford are a hopeful sign, but Detroit still looks sickly

Get article background

IS IT possible that reports of the imminent death of Detroit's Big Three carmakers have been much exaggerated? A fortnight ago both Ford and General Motors (GM) surprised doom-mongers by making profits in the second quarter. And in the past few days the immediate future of Chrysler has been resolved with the completion of its $7.4 billion sale to Cerberus Capital Management, a private-equity firm, and the unexpected appointment of a tough new boss: Robert Nardelli, who, to the fury of shareholders, departed Home Depot earlier this year after trousering a $210m severance package.

Despite these hopeful signs, few in Detroit are celebrating just yet. All three firms are trying to strike a balance between guarded optimism about the progress of their respective (and very similar) recovery plans, while candidly recognising how far they still need to go to revive their businesses in North America. In particular, all three are uncomfortably aware of the importance of reaching an agreement with the powerful United Auto Workers (UAW) union in the coming weeks. They urgently need to reduce or, if possible, remove from their balance sheets the $100 billion or so in health-care obligations to more than 1m retired workers.

GM reckons it is about 18 months ahead of its rivals in trying to address its problems. It has slashed factory capacity and jobs, cut back on dealer incentives and dramatically curbed cut-price sales to rental firms. But despite a net profit of $891m for the quarter, compared with a loss of $3.8 billion a year earlier, there is more hard work ahead. “In North America, with great support, we have got to break-even. But break-even is not job done,” says Fritz Henderson, GM's finance chief.

At Ford, Alan Mulally, the new chief executive recruited from Boeing last year, is similarly realistic. Although a profit of $750m allowed him to claim that the plan to restore Ford's fortunes after last year's eye-watering $12.7 billion loss was running ahead of schedule, it was largely thanks to the distress sale of Aston Martin and improvements in fast-growing markets such as Latin America and Asia. In North America the firm lost $279m in the quarter. “We still have a long way to go,” observed Mr Mulally. Just how far was demonstrated by sales figures for July that suggest the second half of the year will be more difficult than the first, particularly if troubles in housing and credit markets hit consumer confidence and petrol prices stay high. In the weakest July market for nine years, the Big Three's combined share fell below 50% for the first time.

But against that gloomy backdrop there are signs that the automakers are improving the way they do

business. Both GM and Ford have made big strides in manufacturing efficiency. In this year's Harbour Report, an influential study of North American automotive productivity, GM boasted four of the ten most efficient assembly plants. It now takes an average of 32.36 man-hours to build a vehicle, just 2.4 more than Toyota. According to Harbour, as recently as 2002 the difference between the best and worst factories was more than 11 hours, representing a cost advantage to the Japanese of up to $900 a vehicle.

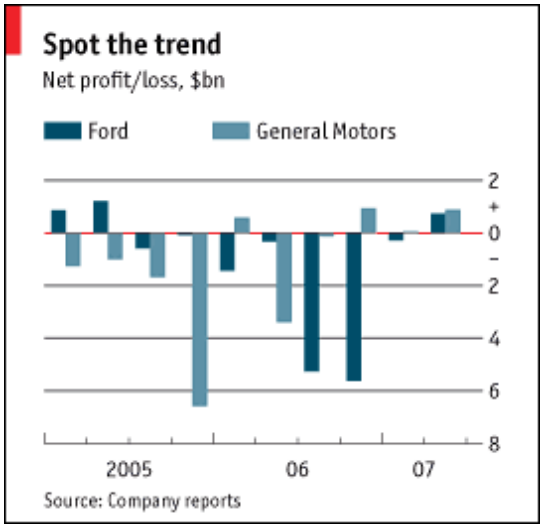
Product quality is improving, too. In recent industry studies GM either matched or exceeded the quality levels of Toyota's American “transplant” factories, while Ford came near the top of this year's J.D. Power Initial Quality Survey. The Ford Mustang ranked as the most problem-free “sporty car” in the survey and the Mercury Milan was the top mid-sized car.

Turning the corner?

Yet two big questions remain. Can the Big Three produce more of the cars that Americans want to buy? Many Americans, particularly on the coasts, will no longer even consider their products. And will the UAW allow them to trim health-care liabilities that add more than $1,000 to the cost of each car compared with the non-unionised, Japanese-owned plants?

The automotive press and analysts regard GM's pipeline as more promising than that of cash-strapped Ford, which will not have a new small car on the market until 2010 and is still selling a version of the Focus that was replaced in Europe nearly three years ago. Mr Mulally wants to make more use of Ford's excellent European range, but the lead times are daunting. As for Chrysler, it has a hit on its hands with its new minivan, but its intention to offer a $10,000 small car built by Chery Automobile, a Chinese firm not known for the safety or quality of its products, has been widely ridiculed.

A deal with the UAW would give the Big Three far more scope to invest in product development. The chances of doing such a deal are hard to gauge. The UAW's leader, Ron Gettelfinger, knows what is at stake for the carmakers and realises that if any of them were to enter bankruptcy—as Delphi, GM's former parts units, did—his retired members could end up with little or nothing. But he may be ready to take that risk if the carmakers press too hard.



The most widely canvassed solution, which has support within the UAW, among senior executives and on Wall Street, is the formation of a trust known as a VEBA (voluntary employees' beneficiary association). This would take over responsibility for the health-care obligations and would be administered by trustees appointed by the union. There are two keys to unlocking such a deal: convincing the UAW that it is in its interest to take on the running of the trust, and a willingness on behalf of the companies to fund it adequately. Even for GM and Ford, which have some $60 billion of available liquidity between them, that will be painful.

In other words, short of the federal government undertaking major reform of America's creaking health-care system, the Big Three will find it hard to compete with the transplant factories. Perhaps the best they can hope for is to hang on grimly in North America and hope that growth in foreign markets comes to their rescue.

If that is what the future holds then GM, which has done a much better job than Ford of running its foreign operations, is in reasonable shape. It also makes any sale by Ford of its Jaguar, Land Rover and Volvo brands look somewhat questionable. Chrysler is desperately seeking partnerships abroad, but after its divorce from Daimler its position is weak and it remains vulnerable, despite its determined new owners. Mr Nardelli will receive a $1 salary plus undisclosed performance-related compensation. But he will be worth every penny if he can find a way through for the smallest of the Big Three.

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Corporate crime in America

Collared

Aug 9th 2007 | NEW YORK
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A conviction for backdating options may be the first of many

AMERICA'S war on corporate crime has been going well lately, with the convictions of Conrad Black, Joe Nacchio and now Greg Reyes. Indeed, a jury's decision on August 7th to find Mr Reyes guilty on ten counts of securities fraud is expected to trigger a new surge of criminal prosecutions of top executives, perhaps even including the iconic boss of Apple, Steve Jobs.

The charges against Mr Reyes, a former boss of Brocade Communications Systems, represented the first criminal prosecution to result from the options backdating scandal that made headlines last year. Various academic studies had found a suspiciously strong correlation between the issue dates of share options awarded to employees and low points in the awarding company's share price. Subsequent investigations, led by the *Wall Street Journal*, uncovered numerous examples of firms which had apparently picked the issue date of options retrospectively to get a good price, and then failed to account for it properly. The government has investigated some 140 firms for alleged backdating. So far 16 executives at eight firms have been charged with criminal offences.

Prosecutors claim that Mr Reyes used the corporate equivalent of the “dog ate my homework” defence. But a more apt description may be the “if everyone else is doing it, how can it be wrong?” defence, for the practice seems to have been extremely widespread among Silicon Valley technology firms. The likeliest explanation for this popularity is that options are highly effective in attracting employees to tech firms, that talent is in short supply, and that backdating makes options more valuable. As employers came across other firms using backdating, they felt obliged to do so too.

Mr Reyes made no financial gain from backdating, and was not unusual in that: nor did Apple's Mr Jobs. Further complicating matters is the debate among economists about whether the bad accounting actually fooled investors. As a result, some legal experts regard backdating as an inappropriate target of criminal prosecutors, and argue that civil litigation or regulatory intervention would be better.

In May, for example, Brocade paid $7m to the Securities and Exchange Commission to settle charges related to backdating. And had the government lost its case against Mr Reyes, it would probably have lost its fervour for criminal prosecution. But all eyes will now be on which senior executive will be arrested next—and whether he will be holding an iPhone during his perp walk.

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Glue and paint

Unsticking ICI

Aug 9th 2007
From The Economist print edition

Akzo Nobel and Henkel move to buy ICI and divide the spoils

"I WAS the hero of the evening," says Ulrich Lehner, the chief executive of Henkel, a German consumer-goods giant. When a fashion model broke a heel at a farewell party for another German boss, Mr Lehner instantly sprang to her rescue with a tube of superglue. "I always carry it with me," he says proudly.

Mr Lehner is a big believer in glue. It accounts for 44% of Henkel's sales under brands such as Pritt, Sellotape and Loctite, the heel-restoring superglue. Already the market leader in adhesives, Henkel wants to become bigger still. On July 30th the company said it had reached an agreement with Akzo Nobel, a Dutch chemicals company, to buy National Starch, an American adhesives business that is a subsidiary of Imperial Chemical Industries (ICI), a British maker of paint, glue and specialty chemicals, if Akzo proved successful in its third attempt to buy ICI. As *The Economist* went to press Akzo had still not made a formal offer, but on August 9th the Takeover Panel, a British regulator, granted a four-day extension, to August 13th, of the deadline for a definitive bid.

Akzo, the maker of Sikkens and Sadolin paints, has been on the prowl for a few months, looking for a company to bolster its own core business. It is sitting on a pile of cash after selling Organon BioSciences, a pharmaceuticals company, for €11 billion ($14.5 billion) to Schering-Plough, a German drugmaker, in March. In June it bid for the first time for ICI, which makes Dulux and Glidden paints. After a second rebuff at the end of July, it raised its indicative offer for ICI to £8 billion ($16 billion) on August 6th, an increase of 3% over the previous offer that was made possible by Henkel's entry into the deal. This did the trick, prompting ICI to open its books for due diligence by the Dutch.

Akzo and ICI make a good fit. ICI is big in America and Asia, while Akzo is doing well in Europe. ICI's paint business would increase Akzo's sales by almost 40% to about $25 billion. It would also make the fiercely independent Akzo much more expensive to take over.

Henkel is offering to pay £2.7 billion for National Starch, a higher price than expected. Analysts think the company may sell its stake in Ecolab, a cleaning company, and use the €2 billion this might raise, as well as debt, to finance the acquisition. A deal with ICI will not affect the company's creditworthiness, says Michael Seewald of Standard & Poor's, a credit-rating agency.

Mr Lehner thinks the deal could transform his conservative company. The takeover of National Starch would increase Henkel's market share in glue from 15% to 23%, cementing it in place as market leader. The two companies are complementary: Henkel has nearly two-thirds of its sales in Europe, while National Starch is strong in Asia and America. And whereas Henkel is focused on industrial glue, National Starch specialises in glue for consumers. Henkel expects some €240m–260m in synergies per year, mainly through cost savings in manufacturing, marketing, distribution and research. The company spends 2.8% of sales on research and development, though the expenditure on R&D is higher in adhesives than in home care and beauty, which account for the other half of the company's sales.

Akzo must still convince its shareholders, but the participation of Henkel should make this easier. Even so, TPG Axon, one of Akzo's largest shareholders with a 3.5% stake, remains opposed to the deal. It wrote a letter to Akzo's management before Henkel got involved to protest against the planned takeover. And hedge funds and other activist investors own a substantial chunk of the company's shares.

Another bidder for ICI is unlikely to emerge. India's Reliance Industries and Dow Chemical showed some interest but retreated. Competition authorities will probably not derail the deal either, as the market for paint and glue is fragmented.

If Akzo's bid were to fail, Henkel could try to buy National Starch on its own. Mr Lehner sees huge potential in glue: it is, he points out, omnipresent in daily life. Glue is used in shoes, cigarette filters and mobile phones, in labelling bottles and binding books. Carmakers use 12–16kg (26–35lb) in each vehicle.

And a Formula One car contains over 100 squirts and dabs.

A thwarted Akzo could spend its cash on either of two American paintmakers, Sherwin-Williams and Valspar. The company is as optimistic about the prospects for paint as Henkel is about glue. Britain uses 40 litres (8.8 gallons) of paint per person every year, for example, yet the figure for China is still only one-tenth of that.

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European energy

The Hungarian defence

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From The Economist print edition

An oil company develops an imaginative takeover defence

WHEN OMV, an Austrian oil and gas firm, raised its stake in its Hungarian rival, MOL, in an apparent prelude to a takeover, MOL's shares naturally began to trade rather briskly. But oddly enough the most enthusiastic purchaser has not been OMV, but MOL itself. The firm is now thought to be in control of almost 40% of its own shares, and is still buying. In other words, to avoid being bought by anyone else, MOL appears to be buying itself.

MOL's management defends this novel form of poison pill. After all, argues Zoltan Aldott, the head of the firm's oil-production division, many firms use buy-back schemes to raise the value of their shares. Moreover, thanks to a Hungarian law that prohibits a firm from holding more than 10% of its own shares, MOL has lent most of its purchases to two Hungarian banks, which are free to vote with them as they please (but not to sell them). Anyway, says Mr Aldott, a takeover by OMV would destroy value, so the ruse is good for shareholders as well as managers.

Analysts are divided on the merits of a merger. The region's energy firms are busily consolidating, and MOL and OMV have been tripping over one another for several years, vying for the same markets and bidding for the same assets. So a tie-up might be logical, if competition authorities let it go ahead without big divestments. That said, MOL's management has a good track record, having made its refineries among the most profitable in Europe.

The region's politicians, however, see things much more clearly. They all agree that the firm from their own country is in the right, and that more should be done to prevent foreigners from meddling. Hungarian nationalists wonder why OMV, of which the government of Austria owns 31%, and that of Abu Dhabi a further 18%, should be allowed to buy MOL, when its own shareholding structure makes it immune to takeover. Hungary's government is threatening to pass a law preventing foreign state-owned firms from buying “strategic” Hungarian assets.

Austrian politicians, meanwhile, decry unwarranted government interference in what should, in their view, be a purely commercial transaction. But they are not always so hard-nosed themselves. Last year they refused to let OMV buy Verbund, a partially state-owned power company, on the grounds that the resulting firm would be vulnerable to a foreign takeover. And commentators in both countries have fretted that any assets sold by either firm in the course of a merger might be snapped up by Russian predators.

Wolfgang Ruttenstorfer, the head of OMV, says he is prepared to wait for as long as a year or two for everyone to calm down and for MOL's management to agree to discuss some sort of a tie-up. But MOL's bosses dismiss all that as “double-talk”. OMV is not really interested in discussion, they say—it is just looking for a capitulation. The battle could yet go either way. But whatever happens, the concept of the national energy champion has scored another victory.

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Telecoms in Africa

Not so EASSy

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A plan to run a submarine cable down Africa's east coast runs into difficulty

THE East African Submarine Cable System (EASSy), a project to wire up several African countries with high-speed optical fibre, is not living up to its name. The plan, hatched in 2003, was simple enough: lay an 9,900km (6,200-mile) submarine cable along the east coast of the continent, from Sudan to South Africa, touching at several points along the way, and then link it up with the rest of the world. But the scheme has become entangled in disagreements between operators and governments over its business model.

The logic of the project is clear: extra connectivity would reduce Africa's dependence on the SAT-3 cable, which runs from Iberia down the west coast of the continent, and on expensive satellite links, the only option in some countries. Cheaper connectivity would promote development and make African countries more attractive destinations for offshoring. Connecting a call-centre with 25 agents is said to cost $17,000 a month in Kenya, compared with $600–900 elsewhere.

The disagreement centres on the structure of the EASSy consortium, made up of around 30 African and international telecoms operators. The governments of some countries, including South Africa, want to avoid a repeat of what happened with SAT-3. That cable is run by a consortium that allows only one telecoms operator to sell capacity in each country. The lack of competition means prices are so high that satellite is often cheaper, says Alan Mauldin of TeleGeography, a consultancy.

To prevent such an outcome with EASSy, several governments, acting through the New Partnership for Africa's Development (NEPAD), have threatened to withhold landing rights for the cable unless their proposals for how to run it are accepted, says Edmund Katiti of NEPAD. They want governments to join the consortium and to have a veto over strategy; and they want any African operator to be able to buy wholesale capacity at a regulated (ie, low) price. They are even talking of building an entirely new cable on these terms, under NEPAD's supervision.

The operators in the EASSy consortium say this is an attempt to hijack an existing commercial project and micromanage the industry. They do not like the sound of government vetoes or regulated pricing. And EASSy's current rules will mean that consortium members will compete to sell capacity in the same markets, driving down prices, says Michel Rouilleault of Axiom, a consultancy attached to EASSy.

Critics respond that these rules, the details of which are unclear but which link the cost of access to the size of the operator's investment, could lead to high prices in countries where the local operator has only a small stake in the project. In South Africa, where several competing operators have stakes, there will be plenty of competition, but this may not be true elsewhere.

The delays to EASSy have helped to spur other projects, including SEACOM, which has just appointed a contractor to lay a cable along a similar route, and TEAMS, which will link Kenya with the United Arab Emirates. India's Flag Telecom also plans to lay a cable to Kenya. At the moment there is insufficient demand to support so many cables, says Russell Southwood, an expert on African telecoms. But that may prompt operators to offer low prices to stimulate demand. So whatever happens to EASSy, getting cheaper bandwidth along Africa's east coast could soon be a lot less difficult.

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Indian retailing

Gently does it

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Wal-Mart tiptoes into India with the launch of a wholesale operation

Get article background

THE long-awaited entry of the world's biggest retailer into the world's most promising retail market proved to be a quiet affair. On August 6th Wal-Mart signed an agreement to start wholesale operations in India in equal partnership with Bharti Enterprises, an Indian conglomerate. Under the name Bharti Wal-Mart, the new company plans to open a dozen or so cash-and-carry stores by 2015.

This amounts to rather less than Wal-Mart would like. Its fortunes have dimmed in recent years as sales growth has slowed and profits have declined. And India, for retailers, is the promised land. At current growth rates it will be the world's fifth-biggest consumer market by 2025, according to McKinsey, a consultancy. Yet currently 97% of Indian retailing is “unorganised”, in the form of 15m small, often family-run, stores. For big retailers, this spells opportunity—though less so for foreign ones. They are permitted to own only up to 51% of shops selling single-brand products, or to sell to others on a wholesale basis.

These restrictions, and uncertainty over how foreign direct investment is measured by the government, have deterred many foreign retailers. This year Tesco and Carrefour pulled out of negotiations to launch joint ventures in India akin to Wal-Mart's with Bharti. Last month Starbucks withdrew a proposal for a franchise agreement with an Indian partner, after two government rejections.

Foreign retailers that have already taken the plunge are, by and large, waiting for India to fulfil its promise. Metro, a German retail giant, started a wholesale business in India in 2003. It has since been plagued by troublesome regulations. Two of its three stores are in Bangalore, where state rules forbid it to sell agricultural produce, which accounts for 30% of the market. Expansion plans have been held up by difficulties in acquiring land. Metro has had logistical problems, too. It has, for example, had to assemble a delivery chain for refrigerated goods. “You have to be more proactive in the missing parts of infrastructure,” says Martin Dlouhy, boss of Metro India.

Indian firms face similar difficulties. Bharti plans a retail business of its own. Rajan Bharti Mittal, chief of this operation, says his two biggest headaches are shortages of skilled workers and affordable land. Bharti's first supermarket is due to open early next year. If foreign direct investment restrictions are eased sufficiently, Mr Mittal says he expects Wal-Mart to join this venture, too. “It will be a natural transition for both sides,” he says.

But this looks unlikely to happen soon, for political reasons. The emergence of big Indian retailers such as Reliance Fresh, which has opened 240 grocery stores since last November, and now Bharti, is causing anxiety for the government. With an election due in 2009, it is worried about the knock-on effect on those working in the unorganised retail sector, India's second-biggest employer after agriculture.

A think-tank, the Indian Council for Research on International Economic Relations (ICRIER), has been asked to investigate how the small shops are coping. Its research into 2,000 “mom and pop” stores has shown that nearly all are thriving, despite the arrival of the supermarkets. To learn whether they could be doing even better, ICRIER is extending its research to areas organised retailing has not yet reached. Its report is due next month.

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Face value

To hell and back

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Howard Lutnick rebuilt Cantor Fitzgerald against the odds. But he will struggle to reconquer his industry

SITTING in his office, Howard Lutnick is repeatedly interrupted by the sound of hammering in the room above. “If I tell them they can't work by day, they'll do it at night and charge me double,” he shrugs. The comment suggests that the boss and controlling partner of Cantor Fitzgerald has not lost his keen eye for the bottom line. It also serves as a reminder that, after six years of heroic effort, reconstruction of the famous bond house he has run since 1991 is still incomplete.

However uncomfortable their plight, moneymen caught in today's credit squeeze would surely give thanks that they were not in Mr Lutnick's shoes in the weeks after September 11th 2001. Cantor lost two-thirds of its New York employees in the terrorist attacks that day, making it by far the worst-hit financial firm. Overnight it went from being the king of the inter-dealer brokers—who act as go-betweens for banks that buy and sell bonds, foreign exchange, derivatives and so on—to nowhere. What followed was nothing short of miraculous. Mr Lutnick, who survived only because he had been taking his son to kindergarten, got the firm running again within two days. It even made a profit the next quarter. Cantor's journey back up the industry rankings has been less dramatic, but no less strenuous. Today it is once again among the leaders, but still behind Tullett Prebon and the industry leader, ICAP, both based in London.

Cantor's recovery established Mr Lutnick's reputation as a crisis manager, and the tears he shed in public showed outsiders that Wall Street had a human side. To many insiders, though, Mr Lutnick still personifies the ruthless, bare-knuckle aggression of the bond-broking industry, which remains a largely male-dominated blood sport. His public image will always be tainted by his decision to stop dead employees' pay cheques a few days after September 11th. He insists it was the right thing to do, as Cantor would otherwise have run out of cash. It has since put $180m, a quarter of its profits over five years, into a relief fund.

With the victims' families taken care of, Cantor can once again focus on expansion. It has hired 1,000 extra brokers in the past two years and now brings in more revenue than it did before the disaster. But it remains close-knit: not a single senior manager has defected to a rival since the attacks, which is remarkable in an industry notorious for its poaching. “I stood with my guys at hell's door and held the line,” says Mr Lutnick. As a result, “the level of faith I have in them far exceeds anything you could have in a normal business relationship.” Tears well up when he recalls how the managers from his Los Angeles office flew to New York to pledge allegiance to Cantor when all seemed lost. The firm's corporate structure strengthens these bonds: one in every seven employees is an equity partner.

Even by the brutal standards of the industry, Mr Lutnick is known as a tough fighter. He took control of Cantor in 1996 while its founder and his mentor, Bernie Cantor, was on a life-support machine, after seeing off a legal challenge from Cantor's wife, Iris. The young Howard had learnt much from Cantor: how to use multiple sets of cutlery, for instance, and that holidays were for wimps. Though he now takes a week off every couple of months, Mr Lutnick insists he has not lost his competitive spirit. Just as well, for these days he has to deal with activist investors as well as eager rivals. At issue in a recent scuffle was the poor showing of eSpeed, a publicly listed electronic-trading outfit that Cantor controls, and a complex web of inter-firm agreements. Mr Lutnick saw off the assault, but it prompted him to make two changes: Cantor's byzantine structure will be straightened out and eSpeed will be merged with BGC Partners, Cantor's privately held voice-brokerage unit.

With the voice and electronic platforms under one roof, the new company will be better able to take on ICAP and Tullett, says Tripti Prasad of Sidoti & Company, a research firm. One reason for keeping both is that although electronic trading's market share is growing, trades over the phone remain popular. Clients want human contact when buying complex financial instruments. “People still matter, surprisingly,” says Mr Lutnick. For someone who prides himself on his troop-rallying skills, that could be turned into a

competitive advantage.

Yet he faces an uphill struggle. ICAP, in particular, is a formidable rival. It now executes over half of all trading in Treasury bonds among banks. ICAP's boss, Michael Spencer, has been Mr Lutnick's sworn enemy for many years—all the more so after the emergence of an e-mail, written by Mr Spencer a month after the 2001 attacks, saying that he “would love to put one up their [Cantor's] bottoms”. But much as Mr Lutnick would like to dethrone his arch-rival, there are other obstacles. New brokers are popping up to steal business from Cantor and serve new niches. Mr Lutnick, understandably distracted, was slow to move into some fast-growing areas, notably credit derivatives.

From bonds to the box office

But Mr Lutnick is hoping that Cantor can profit by spotting other new prospects. It is a leader in carbon trading, for example, having led the way in acid-rain credits. It is adding new products to its Hollywood Stock Exchange, a virtual market where traders bet on the box-office performances of films. And it is moving into property and equity derivatives, which Mr Lutnick predicts will one day be as big as their credit-market cousins.

In one sense, this renewed push is a form of redemption: what better memorial to the lost than regaining the top spot? It would be a thrilling twist to an inspiring story. But as the lines blur between inter-dealer brokers and traditional exchanges, it may not be long before a big exchange operator makes Mr Lutnick an irresistible offer for all or part of Cantor. After all the toil and tears, selling up would be wrenching. But going it alone and never making it back to the top might be even harder to bear.

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Procter & Gamble

Will she, won't she?

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Having bought Gillette and focused on big brands, the world's largest consumer-goods company is betting that scale is the way to success

Landov

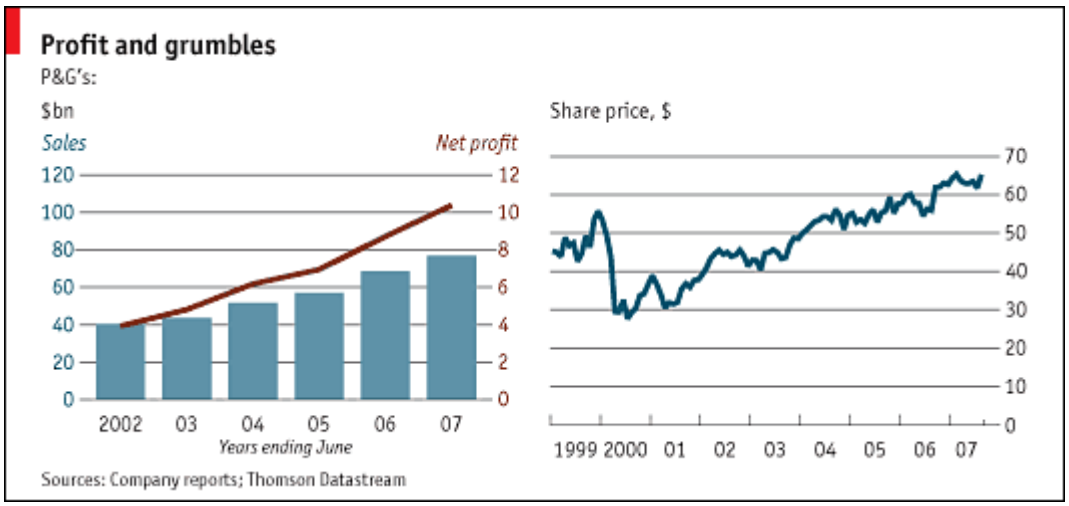
IN THE corner of a meeting room next to the bosses' office at the headquarters of Procter & Gamble (P&G), a large sculpture of a woman in a hat watches over proceedings with a serene smile. “She is at the centre of all our decisions,” says Richard Antoine, head of human resources and confidant of Alan Lafley, the company's chief executive.

Founded in 1837 by William Procter, a candlemaker, and James Gamble, who made soap, P&G is the world's biggest consumer-goods company. It sold $76.5 billion-worth of them in the year to June 30th. And it probably knows more about consumer marketing than any other firm on the planet. Interestingly, many people at P&G do not use the word “consumer”. Nor might they ask if a “customer” or “shopper” would buy a putative new product. They are more likely to ask: “Would ‘she’ buy it?”

Women have long accounted for four-fifths of P&G's customers. Over the years, the way P&G sells to them has changed dramatically. In the 1930s it sponsored radio shows—the original soap operas—to encourage women (usually housewives) to buy its detergent. Now radio has been surpassed by television and the internet as a means of promotion; and “she” has become ever more independent, demanding and fickle. The variety of products on offer has exploded, not just from makers of branded goods, like P&G, but also from the big supermarket chains that now dominate the retail end of the business and sell their own labels alongside the big brands.

“She is in control now,” says Mr Antoine. The consumer-goods giant is spending lots to find out what she actually wants. Staff from its Consumer and Market Knowledge division tour the world and spend entire days with women to observe how they shop, clean, eat, apply their make-up or put nappies on their babies. They try to understand how a woman reacts in the first three to seven seconds after she sees an item in a shop (the “First Moment of Truth”, in P&G-speak) and when she tries it at home (the “Second Moment of Truth”).

At first P&G struggled in the new world of empowered she-consumers. In 2000, after a big drop in profits, its share price took a tumble (see chart below). Mr Lafley, a company veteran, took over that year (P&G is a great believer in promoting from within). The company he leads has such a reputation for insularity that employees are known as “proctoids”, but Mr Lafley has been trying to open up more to the outside world and to streamline P&G's notorious bureaucracy. He also needed a clear strategy for the company's growth. That, he concluded, lay in investing more in the power of brands: the strongest brands, he reasoned, would be sought out by consumers everywhere.



Mr Lafley began with the acquisition of Clairol, a hair-dye company, in November 2001. Two years later he paid $6.9 billion for Wella, a family-owned German beauty firm. But the biggest deal, in January 2005, was the $57 billion purchase of a company known for serving men rather than women: Gillette, which controls three-quarters of the world market for razors and shaving foam.

Has the huge Gillette purchase paid off? Mr Lafley admits that he took a big risk. Four out of five mergers don't work out, he says, and big deals fail more often than small ones. But he has a list of five reasons why mergers fail. On all counts he says P&G is now doing fine.

Strategy is first on Mr Lafley's list. Mergers of companies that are either not at all complementary or pursue completely different strategies tend to fail. But both P&G and Gillette are strong companies, and their brands and international coverage match each other well. P&G is good at innovation, understands consumers and knows how to nurture brands. Gillette's strengths are technology and the ability to roll out new products within a few weeks. And of course there is the chance to learn about marketing to the other sex. This year Gillette launched Pure Divine, a body wash for women. P&G is working harder to sell High Endurance, which it claims is America's first body wash for men. New Gillette products for women and new P&G products for men are on the way.

Next comes company culture. Though they had their similarities, these two old American companies also had important differences in style. Management at P&G is consensus-driven whereas Gillette's was hierarchical. To ease unification Mr Lafley set up a special team to work out how to take the best from the two cultures. The chief of P&G North America is a Gillette man. Mr Lafley managed to keep around 95% of Gillette staff who were asked to stay. Still, many top Gillette people chose to go, their decision eased by the large pay-offs specified in their employment contracts should the firm be taken over.

Bosses are third. Gillette and P&G made such an obvious strategic fit that their chiefs had already talked a couple of times in the 1990s. In the end James Kilts, the head of Gillette, made the first move because he wanted to avoid a takeover by Colgate-Palmolive, run by Reuben Mark, his arch-rival. Mr Kilts stayed on for a year after the merger to ease the transition. He and Mr Lafley seemed to get along well.

Fourth, mergers often fail to produce the cost savings that companies promise. P&G and Gillette said that their union would yield efficiencies in manufacturing, marketing and distribution of some $1.2 billion annually by the end of the third fiscal year after the merger (ie, June 2008).

Fifth, what about revenues? Clayt Daley, P&G's chief financial officer, admits that a merger can truly be called a success only when the new entity hits its revenue targets too. P&G and Gillette promised about $750m annually by the end of the third year. Mr Daley says the merged company is on track to meet both cost and revenue targets, but is not there yet.

On August 3rd the company said that net sales were 8% higher in the fourth quarter (April to June) than a year before, and rose by 12% in the whole year. Organic growth—ie, stripping out the effects of acquisitions—was only 5% in 2006-07, compared with 8-9% in the couple of years before the Gillette deal. The pre-merger figure was atypical, insists Mr Daley. The company's long-term goal is organic growth of 4-6% a year.

Extra, extra large

Though Mr Lafley says he is meeting his chosen criteria, investors have not been grateful: in the past year P&G shares have underperformed the S&P 500 stockmarket index, although the gap has narrowed in recent weeks. This may explain P&G's decision, also revealed on August 3rd, to boost its share-repurchase programme to $24 billion-30 billion, or 12-15% of its capitalisation, at a rate of $8 billion-10 billion a year for the next three years.

Analysts, though, generally say favourable things about Mr Lafley's spending spree. William Schmitz, who follows consumer-goods industries for Deutsche Bank, is one who thinks that size can become an inhibitor of growth. “The company raised the bar very high by needing to increase sales by some $6 billion annually just to meet its targets for growth,” argues Mr Schmitz, who thinks that without its big mergers P&G would probably grow faster now. But even Mr Schmitz has a “buy” recommendation on the shares.

Scale looks more likely to be a help than a hindrance in today's consumer-goods industry. One reason is that it saves costs in procuring commodities, the prices of which have risen sharply in recent years, pushing up the cost of the foodstuffs, packaging, chemicals and energy that go into the industry's products. In the old days such price increases could be passed on to consumers, but today P&G and its peers are under pressure from gigantic retailers to keep prices low. The biggest of all, America's Wal-Mart, alone gobbles up one-fifth of P&G sales. Several hundred proctoids are stationed in Bentonville, Wal-Mart's home town, and the relationship has deepened since the Gillette takeover. Hence a second advantage of scale: as P&G gets bigger, it is becoming less dispensable for Wal-Mart.

Retailers have increased their power by developing their own brands, or private labels. In the markets where this has gone furthest, such as Britain, retailers' own brands account for 40% of grocery sales. In many countries the growth of private labels is spilling over from food to household goods and personal-care products. According to a recent report by the Boston Consulting Group (BCG), retailers' own brands are also expanding to online sales and convenience stores. And the most sophisticated own-brand producers have begun to “out-innovate” makers of branded consumer goods, says BCG, by using the insights into consumer behaviour gained through their loyalty programmes and research. By evaluating sales data and test-driving innovations in their shops they are able to adapt their innovations more quickly to consumers' needs than makers of branded goods can.

Those marketing techniques are getting more and more sophisticated. In May Wal-Mart and P&G started the rollout of Prism, a system of infrared sensors that counts the number of times shoppers are exposed to product displays, banners and televisions, in order to measure the effectiveness of in-store marketing. Typically obsessive, P&G also sends out staff to trail round after other customers' trolleys, double-checking the sensor system. “We depend on them as much as they depend on us,” explains Jeff Weedman, of P&G's external-business development team.

For retailers and makers of consumer goods alike, the complexity and cost of advertising and marketing have increased. As the world's biggest advertiser, P&G has tremendous clout in adland. It spent $6.8 billion in 2005-06 and at least 10% more in 2006-07 (*Advertising Week*, a trade publication, reckons $7.5 billion). It has often been a pioneer of new marketing techniques. This year Publicis, a French advertising firm, and Dassault Systèmes, a French software company, turned to P&G for advice before launching a digital-marketing joint venture in June. The scheme allows consumer-goods companies to create and adapt new products online with the input of consumers.

Mr Lafley's quest for big, valuable brands means he is prepared to sell tired ones. He got rid of Sunny Delight, an American soft-drink range, and Punica, a German juice brand, as well as Jif (peanut butter), Crisco (pastry shortening), Pert Plus (shampoo), Sure (deodorant) and P&G's towel business in South Korea. He also shed five detergents: BIZ, Milton, Sanso, Rei and Oxydol. Soon he may take a critical look at underperformers in the Gillette stable too. Growth at Duracell, its battery business, and Braun, which makes electrical appliances, has been disappointing—but “purposefully disappointing”, claims Mr Lafley, because of a focus on Gillette's razors and blades.

These disposals have made P&G more reliant on a smaller number of leading brands. Today it has 23 with annual sales of more than $1 billion. The biggest is Pampers nappies, which collected more than $7 billion last year. Gain, a detergent, is the latest to cross the $1 billion mark. It has a strong scent and is aimed mainly at Hispanics and African-Americans, who according to P&G research attach more importance to a good smell of cleanliness.

The other effect of selling off underperformers is a sharper focus on beauty and health products, which have higher margins and are less under threat from retailers' own labels. The sales helped to finance the acquisitions of Wella and Clairol, which made P&G one of the world's biggest beauty companies. Beauty accounts for $21 billion in sales, more than one-quarter of the group's global total. Seven of its beauty brands—Olay (skin care), Pantene and Head & Shoulders (shampoo), Wella (hair-care), Always (feminine hygiene), Mach 3 (shaving blades and razors) and Gillette (shaving blades, razors, gels, creams and deodorants)—all bring in sales of more than $1 billion a year. As a reward for her success as boss of the beauty business, Susan Arnold was made head of all global business-units in May: she runs beauty and household goods as well as health and well-being.

Innovation is the second area where Mr Lafley has shaken things up. Inventing new products and brands is hard in an industry that, like many of its customers, is well into middle age. According to a study by Deloitte, a consulting firm, the number of new consumer goods and product extensions increased by 80% between 2002 and 2005, but less than one-quarter of them had sales of $7m or more in the year after they were launched.

Until Mr Lafley took over, P&G made all its inventions in-house and the company's expenses for research and development were higher than those of rivals. Proctoids used to say that the phrase “not invented here” was, well, invented here. In 2001 Mr Lafley started the “Connect and Develop” programme to open up his company's innovation model. In addition to 9,000 researchers in 11 research centres around the world, P&G has 75 technology scouts who travel the globe in search of new ideas that P&G might take up and develop. He also pushed for more collaboration between the various bits of the P&G empire. For instance, when developing Crest Whitestrips, a tooth-whitener, P&G drew on the knowledge of people in the toothpaste business and those in R&D working on a novel film technology, as well as experts in bleach from fabric and home care.

After five years of “open innovation” half of the company's inventions come from outside. One-third of new patents are issued to individuals and small companies, says Nabil Sakkab, head of corporate R&D; 30 years ago most were issued to big companies. So it makes a lot of sense to reach out. The company's R&D has become more productive, partly as a result of this. P&G says that its sales per R&D employee have roughly doubled since 2000.

Mr Lafley has also developed joint ventures, such as the one set up in 2002 with Clorox, a maker of household products, to produce food-storage wraps. In addition to the use of its cling-film technology, P&G brought 20 full-time employees to the enterprise, while Clorox contributed its bags, containers and wraps business. In May, Inverness Medical Innovations and P&G formed a 50-50 joint venture for consumer diagnostics. The new company, Swiss Precision Diagnostics, based in Geneva, is the largest pregnancy-test business in the world. Its brands include Clearblue and Accu-Clear.

To continue to build up its superbrands P&G needs to focus more on emerging economies, where the scope for growth in sales of basic consumer goods is far greater than in rich countries. Already more than 40% of P&G's growth comes from emerging markets, which contribute more than one-quarter of its sales. That is a good portion, but Unilever and others sell up to half of their wares in developing countries. Gillette could be useful. It is strong in India, where P&G has long been outgunned by Unilever. China, Russia and Ukraine are already big markets with sales of some $3 billion annually in each country.

P&G has learned that it is a mistake to take a product designed for a developed market into a developing country without proper consideration of the needs and means of women without much to spend. Naturella, for instance, is a pantyliner first sold in Mexico that has become popular in Russia, Poland and other east European countries with women on similar average incomes. Downy Single Rinse, a fabric softener, was designed for parts of the world where water is scarce and rinsing clothes several times is costly or impossible. A laundry detergent called Vizir has become Poland's number one.

Still lagging its rivals, P&G forecasts that by 2010 emerging economies will account for 30% of the group's sales. Continuing to tune its products to the budgets and aspirations of local shoppers will surely be of the essence. And knowing what consumers want—and creating new wants—is still one of the things P&G does best. In the past it used this skill mainly for women in Western countries with relatively high incomes. But in future years P&G will target women, rich and poor, everywhere—as well as the other half of humanity.

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Monetary policy

It ain't easy

Aug 9th 2007
From The Economist print edition

Illustration by Satoshi Kambayashi

Despite the recent turbulence in the credit markets, the Federal Reserve holds fire on interest rates

Get article background

CALL a man like Ben Bernanke a pushover and you deserve a punch on the jaw. With a calm resolution that is beginning to mark his tenure, the Federal Reserve chief and his colleagues left America's benchmark interest rate unchanged at 5.25% after a meeting on August 7th and gave little indication that they were minded to cut rates in the near future.

The Fed acknowledged in a statement that financial markets had been volatile, that credit conditions had tightened (if only for “some” households and businesses) and that core inflation had “improved modestly”. But it stressed that America's economy was still on course for moderate growth, albeit with greater downside risks, and that inflation remains the main policy concern.

Hopes of a bigger shift in tone, paving the way for a cut in interest rates later this year, were firmly dashed. Before the Fed's statement, a cut by the end of the year had been fully priced into financial markets, with another expected by March. Once the market had digested the Fed's stance, it was only marginally less optimistic about the likelihood of lower rates. But by stressing that policy will respond to economic developments, the Fed seemed at pains to quash any notion that it would ease policy to shore up financial markets.

If asset-market squalls do not merit a monetary response, worries about the wider impact of the housing slump on America's economy may yet tip the balance. The downturn in the homebuilding industry has shaved nearly a percentage point off GDP growth in the past year, but the curtailment of new supply has not been enough to restore balance to the housing market. The stock of lived-in houses for sale is already close to a 15-year high. The overhang of unsold homes is likely to grow, as more and more cheap introductory mortgages are reset to higher rates. Rising debt costs could force many overstretched homeowners to default and their lenders to foreclose.

Worryingly, the effects of the housing slump may be spreading. Consumer spending rose at an annualised rate of 1.3% in the second quarter, the smallest increase since the end of 2005. Car sales fell again in July and business surveys point to a recent softening of growth, particularly in services.

Weaker activity is starting to affect the job market too. The rise in the unemployment rate to 4.6% last month was significant, says Jan Hatzius of Goldman Sachs, because it was entirely due to job losses, rather than an influx of jobseekers or a rise in the number leaving work voluntarily.

When demand stumbles, price pressures are likely to ease too. However, the recent bad news for America's economy might not be good news for inflation.

A lot depends on how revisions to GDP are judged. Late last month America's official statisticians cut their estimates of GDP growth by an average of 0.3 percentage points a year for the three years to 2006. These downgrades were incorporated this week into lower estimates for productivity growth and higher readings for unit labour costs, which rose by an alarming 4.5% in the year to the second quarter.

Downward revisions to GDP and productivity could imply that the economy's safe speed limit has dropped and that the short-term trade-off between output growth and inflation, already afflicted by high oil prices, had worsened. Strong growth in unit wage costs against the backdrop of a tight-looking jobs market might limit the Fed's scope for rate cuts.

Equally, however, the GDP revisions imply that there is less momentum behind the growth in demand. The downgrade was due mainly to lower growth in consumer spending. Stubbornly low unemployment, weak productivity growth and accelerating unit wage costs may simply be the results of firms' holding on to workers while demand is weak. David Rosenberg of Merrill Lynch points out that there was a similar surge in unit wage costs at the end of 2000, on the eve of recession and big rate cuts.

If the Fed is inching closer to a neutral policy stance, other central banks are still looking to raise interest rates to temper growth and curb inflation. Jean-Claude Trichet, president of the European Central Bank (ECB), said on August 2nd that “strong vigilance” was required to keep inflation in check. This was a signal that the ECB is poised to increase its benchmark interest rate from 4% to 4.25% at its next meeting on September 6th. The Bank of England's quarterly *Inflation Report*, released on August 8th, hinted that Britain's central bank may tighten the screw once more.

Although the ECB and the Bank of England have sounded sanguine about tightening credit, central bankers are not entirely unperturbed. On August 9th, following a sudden liquidity squeeze and a spike in interbank lending rates, the ECB injected €94.8 billion ($131 billion) in a special refinancing operation.

Nonetheless, the global economy is still strong. Indeed, America has the weakest year-on-year growth rate of the 42 economies listed in the weekly indicators of *The Economist*. Emerging-market economies are growing rapidly and—in contrast to 1998, when the Fed was forced to cut rates by global market turmoil—are self-insured against the vagaries of market favour by current-account surpluses and huge foreign-exchange reserves. America is most vulnerable to a drying-up of capital flows, which partly explains the dollar's frailty.

The Fed—quite rightly—is reluctant to signal rate cuts at the first sign of financial-market turbulence. An institution that has been criticised for not tightening sooner and faster during the housing boom will not want to encourage excessive risk-taking now. Inflation is still the Fed's biggest worry, as it ought to be, although the concern about the housing downturn is increasing. The deepening economic gloom may well mean that it will eventually prove necessary to cut interest rates to arrest a sharper downturn. But for now, the right thing for Mr Bernanke to do is to keep standing firm.

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Asset-backed securities

Sold down the river Rhine

Aug 9th 2007 | FRANKFURT
From The Economist print edition

A German lender succumbs to perverse incentives. Who's next?

THE three big credit-rating agencies have overhauled their methods of assessing default risk in the American subprime-mortgage market in the past month. Unfortunately, that has been too late to save IKB Deutsche Industriebank, a small German lender, from a messy bail-out.

In a matter of weeks thousands of portions of subprime debt issued as recently as 2005 and 2006 have had their ratings slashed. Many have fallen overnight from highly rated investment grade to junk.

The blitz reflects a belated recognition that such ratings always were a bit dubious. Arguably, the buyers should have mistrusted them from the beginning: the rating agencies were earning huge fees for providing favourable judgments. One of the most reckless to wade into these muddy waters so far has been IKB, a Dusseldorf bank which since 2002 had built up a €12.7 billion ($17.5 billion) portfolio of asset-backed investments, many bundled into collateralised-debt obligations (CDOs). The portfolio was held offshore and off IKB's balance sheet by an entity known as Rhineland Funding, which in turn funded itself by issuing short-term commercial paper.

By all accounts IKB gobbled up assets that met its rating criteria. It paid investment banks and rating agencies handsomely—around $200m a year by some estimates—to structure the products and help value them with complex mathematical models. But ratings can cover a multitude of sins. CDOs often include the cheapest assets that will achieve the required rating.

In booming markets, IKB's Rhineland Funding thrived, paying IKB “advisory fees” of around €50m a year. Superficially the portfolio looked good, with 70% of its assets rated double-A or above and only 10% of them below investment grade. But neither IKB nor its major shareholder, the state-owned Kreditanstalt für Wiederaufbau (KfW), which is now running the portfolio, will divulge what lies under the hood. Market insiders say that in the past two years IKB was tempted into the riskier end of the market, the mezzanine tranches of American residential mortgage-backed securities, that were packaged into CDOs. Even the highest-rated triple-A tranches could be affected by losses in the less creditworthy parts, the sources say.

IKB stayed at the blackjack table too long. As credit-market worries spread, Rhineland could no longer secure new short-term funding and called on a €12 billion line of credit promised by IKB and a handful of other banks. One of the lenders, Deutsche Bank, which had long mistrusted the subprime market, exercised its option to cancel the commitment and alerted Bafin, the German bank supervisor. That prompted a bail-out, in which KfW provided €8 billion of liquidity and covered €1 billion of €3.5 billion of estimated paper losses on the IKB group's portfolio. Other German banks provided a further €3.5 billion of liquidity.

IKB may be a special case, but many German banks, particularly the wholesale Landesbanks, have been tempted to diversify into CDOs, though they deny much subprime exposure. WestLB owns around half of the $35 billion assets invested in Brightwater Capital, a “conduit” like Rhineland, and has been parrying rumours that it may have more than $300m in mark-to-market losses. SachsenLB, the smallest Landesbank, has $16.75 billion invested in another conduit.

One incentive has been the higher yield on top-rated CDOs, compared with similarly rated bonds or loans. Another has been the pressure on banks from regulators and rating agencies to comply with new capital rules known as Basel 2.

Basel 2 puts great store on credit ratings. It penalises lower-rated assets and rewards the spreading of risk. The rating agencies' dim view of German assets over the past few years, based on the poor economy, was a further incentive to look west. But some investments are not transparent, which has bred confusion. Although Basel 2, due to come into full force next year, sensibly encourages banks to diversify their loan portfolios, some, such as IKB, have simply swapped one concentration for another outside their

normal expertise. For that, IKB has paid a high price.

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Investment banking

Faith healing

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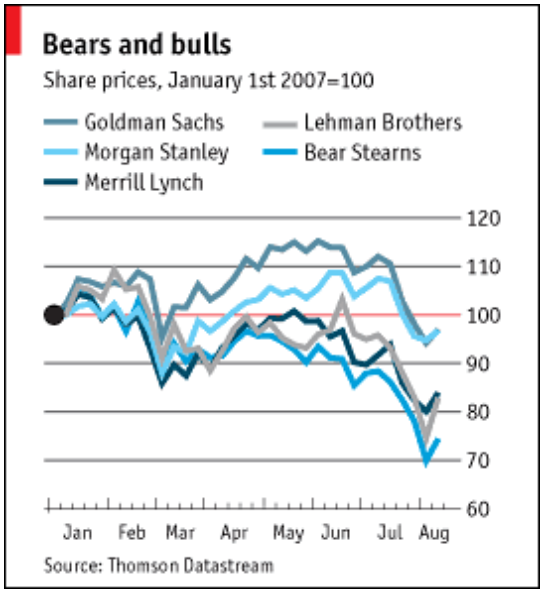
Wall Street banks will find it hard fully to regain the market's trust



IT WAS as if the market needed to be thrown a body before it could be mollified. On August 5th Bear Stearns, an embattled investment bank that has seen two of its hedge funds holed by subprime mortgages, tossed Warren Spector, its co-president, overboard. The next day its share price, which had plunged by over a third in recent weeks, rallied 5%. The shares of its investment-banking peers, which had also been caught in the storm, bounced back early in the week (see chart).

Has the weather turned? Not yet. On August 9th BNP Paribas, a French bank, suspended withdrawals from three funds invested in securities backed by mortgages, citing “the complete evaporation of liquidity in certain market segments.” Financing buy-outs remains hard. Some hedge funds are also suffering. Goldman Sachs, which prides itself on its risk management, reportedly saw returns at its $9 billion Global Alpha hedge fund drop by almost 12% in the past two weeks (the rest of the industry appears to have produced positive returns on average in July, according to Hedge Fund Research).

Understandably, given the opacity of the investment banks' exposure to credit markets, not least subprime mortgages, investors decided to sell first and ask questions later, walloping the shares of Wall Street firms, especially Bear Stearns, Lehman Brothers and Merrill Lynch. Then came the reappraisal of risk.

Liquidity fears were the biggest hurdle. The evaporation of funding possibilities ultimately drove Drexel Burnham Lambert, a high-flying investment bank, into bankruptcy in the 1980s and threatened Wall Street banks after the implosion of Long-Term Capital Management (LTCM), a gargantuan hedge fund, in 1998.

The disquiet over liquidity is exacerbated by the fact that investment banks—which usually package securities and sell them—have increasingly stuffed their vaults with illiquid assets, such as private-equity investments, “hung” bridge loans (ie, those that are not as temporary as had been hoped), and rarely traded derivatives. According to Fitch, a rating agency, such assets at the top five Wall Street banks ballooned from $144 billion in 2004 to $229 billion at the end of the second quarter of this year, up 59%. That excludes what some estimate to be $300 billion in loans promised to buy-out firms and companies.

However, investment banks claim to have learned some lessons from LTCM. First, they are less reliant on short-term debt for their funding. The proliferation of interest-rate derivatives since the late 1990s means banks can hedge the risks of holding long-term debt. Bankers also say the increased cost of long-term debt is justified when it provides breathing space in a crunch. UBS reckons that brokers today use short-term liabilities for just a fifth of their funding, down from well over 50% a decade ago.

Investment banks have also built up shock absorbers. According to Fitch, the average investment bank holds more than twice as much capital as it does illiquid assets. Goldman Sachs keeps a stockpile of over $50 billion in highly liquid securities in case markets dry up. Wall Street firms have also diversified their funding sources by acquiring deposit-taking banks.

Even Bear Stearns has soothed the doubters, at least temporarily. On August 7th it announced it had managed to raise $2.3 billion in the capital markets, although at a steep price.

But like its peers it continues to keep details of its subprime and other credit exposures to itself. Investors will take a lot of convincing that it is fully seaworthy, having looked so tattered just days ago. Says Eileen Fahey of Fitch, “It is a trust issue more than a liquidity issue.” And if trust goes, liquidity usually follows.

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Buttonwood

Prime movers

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From The Economist print edition

Beware the fragile relationship between prime brokers and hedge funds

Get article background

THERE is a paradox at the heart of the financial markets. And that paradox is playing a key role in the continuing tumult. It is commonly assumed that the growth of hedge funds has dispersed market risk. In particular, credit risk has been packaged up and resold. When bad debts occur, the pain is spread far and wide instead of focused on the high-street banks, which hold the deposits of ordinary consumers. The result should be a more robust financial system.

At the same time, however, financial regulators have been looking for ways to keep tabs on the fast-growing hedge-fund industry. They are naturally keen to avoid a repeat of 1998, when the collapse of Long-Term Capital Management (LTCM) prompted a liquidity crisis. Many regulators have decided they can keep in touch with hedge funds by monitoring the activities of the prime brokers that serve them.

This makes sense. After all, prime brokers provide the finance that allows hedge funds to gear up their returns and lend them the stocks so they can sell individual shares short (ie, gamble that their prices will fall). And monitoring is made all the easier because three investment banks—Goldman Sachs, Morgan Stanley and Bear Stearns—dominate prime brokerage. The trio act as brokers for about 60% of hedge-fund assets.

But this is where the paradox appears. Hedge funds are supposed to be dispersing risk. But if their chief financiers are just three Wall Street banks, is this dispersion more apparent than real? Could banks have shown risk out of the front door by selling loans, only to let it return through the back door of prime broking? Take credit insurance. Banks that own corporate bonds may use the swaps market to hedge against a company defaulting. But if the other side of the swap is taken by a hedge fund whose finances are dependent on loans from that same bank, has risk really been transferred?

The prime-brokerage arms of investment banks also face a number of potential conflicts of interest. The trading desks of those banks will be operating in the same markets as the hedge funds and often taking the same positions.

This is hardly surprising; many hedge-fund managers have previously worked on trading desks and will be using systems developed at their old employers. But it creates the opportunity for banks to trade against their clients' interests. As became clear in the fallout from 1998, banks that were aware of LTCM's loss-making positions had a real advantage.

Of course, prime brokers say they go to great lengths to keep themselves separate from their trading desks. Still, most hedge funds are sufficiently suspicious to maintain links with several brokers, so that no single firm is aware of all their positions.

In some ways prime brokers may also act against the interests of their own parent banks. At the moment, brokers are trying to rein back the funding they provide to the smaller and weaker hedge funds. This is quite natural, given the recent problems in credit markets. The brokers may have been pledged collateral against their hedge-fund loans but, as Merrill Lynch recently discovered in its dealings with two Bear Stearns hedge funds, it may not be possible to sell that collateral for anything like the current market price.

However, taking away credit from hedge funds means they have to sell assets. And that may hurt the trading desks of the investment banks as prices fall. It may also hurt the syndication departments and bond-sales desks—the divisions that peddle the debt the banks have underwritten. Without hedge funds to buy the bonds or loans, the risk may end up back on the banks' balance sheets.

The fundamental problem is the nature of market liquidity. When hedge funds are doing well, prime brokers are happy to lend them money; in turn, the use of geared money by hedge funds drives up asset prices. (Although some funds will take short positions, the industry normally has a net long position.)

But when prime brokers turn off the funding tap, this virtuous circle may turn vicious. Hedge funds may be forced to sell their most liquid holdings since more complex positions may be impossible to offload. So a problem in one part of the financial system, such as American subprime mortgages, can quickly become a global issue. As Richard Bookstaber wrote in his recent book, “A Demon of Our Own Design”: “Trying to control the risk ends up creating the liquidity crisis.”

The financial system will probably survive this sell-off: the global economy looks resilient enough. But the market turmoil may be a dress rehearsal for the real crisis that will emerge when the economy is in poorer shape.

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Chinese lenders

Black-market banking

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Worried about illicit lending, China discovers a big underground bank

Get article background

JUST over two years after a big unlicensed bank was last found in China, another surfaced this week. Last time the bank was based in Shanghai and operated in a small number of provinces. This time the illegal bank, which is based across the border from Hong Kong in Shenzhen, is on a far grander scale. It did business in every province of the country and its clients included state-owned enterprises and foreign multinationals. It appears to have been operating unnoticed by officials for up to eight years. In the Shenzhen area alone, it was reported to have done 4.3 billion yuan ($544m) of unspecified transactions in the year and a half to May.

According to the State Administration of Foreign Exchange, the bank's clients had been borrowing mostly to buy fuel, cover deposits for land-use fees and pay export duties. But, as often happens, most of the lending was really for companies to make speculative investments in property and shares. This is what appears to have led to the bank's downfall.

The authorities in Beijing, worried about the surge in the stockmarket and property prices in the past two years, have been trying to cool things down. They had suspected that part of the frothiness in the markets was the result of too much illicit lending. Their investigations appear to have uncovered the bank's existence.

Such banks are surprisingly common in China—although this one is a whopper. A government-funded study by the Central University of Finance and Economics cited by the *South China Morning Post* last year found that they lent as much as 800 billion yuan a year. Some of this goes to legitimate business. Underground banks provide as much as a third of the loans to small and medium-sized enterprises (SMEs) and 55% of the loans to farmers. SMEs and farmers are generally poorly served by the larger state banks and frequently have no option but to turn to these illegal institutions.

The state's efforts to reduce legitimate lending to cool the economy mean that illegal borrowing is likely to have grown. But the success of underground banks is also partly down to the returns they provide. With state banks offering savers paltry rates of interest, the under-the-counter ones simply offer more for deposits.

Of course, they pay better because they earn more. Most of the money these banks lend is for risky investments. As much as 90% of it is used for speculative trades in financial markets.

With stockmarkets around the world jumpy, China's stockmarket bubble continuing and 3-4% of the broad money supply estimated to be flowing underground, it is no wonder the authorities are alarmed. So many unregistered institutions risk the savings of millions being suddenly washed away.

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Personal finance

The boomers' babies

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How to make financial products appealing to the savers of the future

FACEBOOK, iPods and blogs: anyone with children at university should recognise the accoutrements. Young adults may baffle their parents, but they are a growing marketing opportunity for financial firms. As baby-boomers retire, people now in their 20s will become increasingly important to an industry looking for a new source of customers.

From America to Britain, Australia to Japan, the world's richest nations are facing a population inflexion-point in the next few years. The boomer generation, born from the late 1940s to the early 1960s, has been a boon for the financial industry, fuelling growth in products from mutual funds to insurance. Generation X—the label marketers have given to those born from the mid-1960s to the late 1970s—is a smaller group.

Now the younger baby-boomers' children are moving into adulthood. This group, labelled Generation Y, is smaller still. They may look like distant prospects, but much of the financial sector's future success will ride on how soon (and how profitably) it grabs them when they reach their 20s.

What characterises Generation Y? Comfortable with technology, individualistic and fond of networking, the young should be open to attractive offers in personal finance. But so far few financial firms have bothered with them.

KPMG, a consultancy, has found that only about one-fifth of fund-management firms in several rich countries are actively selling products to Generation Y. Another 28% of firms say they will target it within five years. That looks like a gaping oversight. The most popular financial product among young adults is a current (checking) account; they are more likely than their parents to use debit and ATM cards. They also use cash more often than older people, and are more likely to invest in shares than was true a few years ago.

It may seem early, but the retirement-planning industry cannot afford to overlook them either. Today's young will have to fend for themselves more than earlier generations did, given the demise of defined-benefit pension plans. For now, people in their 20s account for about 12% of the participants in 401(k) plans, with about 2% of total assets. The less money their ageing parents put away, the greater the industry's incentive to woo them.

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Economics focus

The mandarins of money

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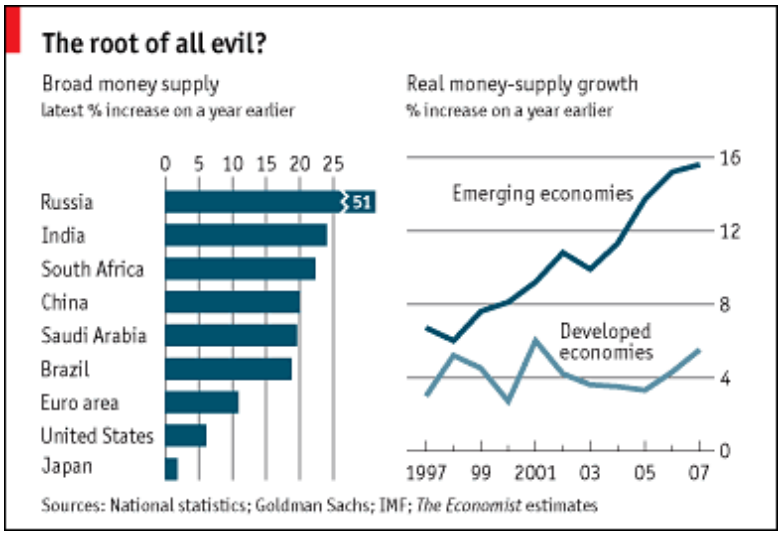
Central banks in the rich world no longer determine global monetary conditions

EXACTLY 30 years ago, in August 1977, *The Economist* published an article by Alan Greenspan, the former chairman of America's Federal Reserve, who was then a private-sector economist. It listed five economic "don'ts". One of these was: "Don't allow money-supply growth to spiral out of hand." Yet that is exactly what central bankers have done in recent years. The bubble in credit markets that now seems to be bursting and the frothiness of so many asset prices was encouraged by loose monetary policies which pumped liquidity into financial markets.

Many economists blame that excess liquidity on Mr Greenspan himself for keeping interest rates too low for too long when he headed the Fed. After the dotcom bubble burst in 2000-01, the Fed slashed short-term interest rates to 1% by 2003. The European Central Bank (ECB) and the Bank of Japan also cut rates to unusually low levels, pushing the average interest rate in the big rich economies to a record low. The real short-term interest rate is now above its long-term average for the first time since 2001, suggesting that global monetary policy is no longer loose. So why did financial markets remain exuberant for so long? One reason is that the world's two most important central banks, the Fed and the ECB, have not been the main sources of global monetary liquidity.

Many economists in investment banks and international institutions mistakenly assume that "global" monetary conditions are set by the central banks of the rich economies. Yet over the past year, a staggering three-fifths of the world's broad money-supply growth has flowed from emerging economies.

Their mints are working overtime. Goldman Sachs reckons that growth in China's M3 measure of broad money has quickened to 20% over the past year. In Russia money supply has grown by a striking 51% and India's is up by 24%. Indeed, the broad money supply in emerging countries has increased by an average of 21% over the past year, almost three times as fast as it has in the developed world. Adjusted for inflation, their money growth has accelerated alarmingly (see chart). As a result, the entire world's money supply is growing at its fastest for decades in real terms.



One would expect emerging economies' money supply to outpace that of the rich world, because their GDP growth is faster. But their surplus money growth over and above the increase in nominal GDP (a crude measure of the excess money available to be invested in financial assets) is also far bigger. Their interest policy has been timid: over the past three years, as monetary policy has been tightened in America and the euro area, average rates in the emerging world have barely budged. China and India have real interest rates among the world's lowest, even though they have the fastest-growing economies.

A decade or so ago, speedy monetary growth in emerging economies was of little concern to the central banks of the developed world: a monetary deluge in Brazil, say, simply caused hyperinflation there. But today these economies play a larger role in the world economy and cross-border financial flows are much bigger. Inflation remains low, so the liquidity pumped out by central banks is flowing somewhere else, namely into global financial markets. For instance, huge purchases of Treasury bonds by these central banks have reduced bond yields, and so spurred excessive borrowing in America.

The policies of the People's Bank of China (PBOC) or the Bank of Russia are likely to have an increasing impact on developed economies in future as capital controls are reduced and markets become more integrated. This prospect becomes more alarming when one considers that, unlike the Fed and the ECB, most central banks in emerging economies are not independent, and thus free to set interest rates in the best long-term interest of the economy. They are still firmly under the thumb of politicians.

Yes, Minister

According to conventional wisdom, monetary-policy mistakes such as those that caused the Great Inflation in the 1970s are much less likely today because central banks in the rich world are now independent of politicians. Yet few of the main central banks in emerging economies enjoy full legal independence, and thus often face pressure from politicians to hold interest rates low to boost growth and jobs. Their monetary independence is also constrained by governments' desire to hold down exchange rates. This forces central banks to engage in heavy foreign-exchange intervention, which inflates money supplies.

A recent IMF study ranked 163 central banks according to their political autonomy (based on factors such as how officials are appointed, the length of their terms and whether interest rates have to be approved by the government). Emerging central banks have become more independent since the 1980s, but they remain much less so than the ECB or the Fed. Some of the central banks that have been pumping out the most money, notably those in China, India and Russia, are among the least independent. The PBOC is under the sway of the Communist Party. The Reserve Bank of India would have raised interest rates more aggressively last year were it not for political pressure. Controversially, the study reckons that both central banks are more independent than the Bank of Japan—another country where its own cheap money policy has created a flood of liquidity outside its borders, through the carry trade.

The days when central-bank watchers could just focus on the Fed and perhaps the ECB in order to assess “global” monetary conditions are over. They no longer control the amount of money sloshing around the world and, as financial markets become ever more linked, analysts will need to pay more attention to central banks in the emerging world. They may even have a bigger role to play in stabilising the global economy if the squeeze in the credit markets becomes more acute.

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Correction: The dollar

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From The Economist print edition

In a recent Economics focus ("Soft currency", July 28th) we wrote that the dollar was worth €1.38; we meant $1.38 to the euro. Sorry.

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Neuroscience

Blossoming brains

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Exactly how mental maturity develops—and the anatomy responsible for its emergence—is being revealed

Illustration by Stephen Jeffrey

BY ABOUT the age of six, the human brain is as big as it is ever going to be. That may surprise most grown-ups, who notice that children do not display the mental agility of adults (even though many fancy their own little angels are geniuses). Children can remember facts but are less good at recalling the context in which those facts are relevant. And they are easily swayed from long-term goals. Even when youngsters try their hardest they cannot wait 15 minutes for two biscuits if they can scoff one now instead.

But as people grow, their brains change. Before full volume is attained, the pruning starts. Grey matter gets picked away at different rates in different parts of the organ. Brain cells form white matter as their arms become covered in fatty sheaths that, like the plastic insulation around a metal wire, stop electrical signals leaking out as they zip along the nerve cells. As the grey matter diminishes, the white matter steadily increases. Which is why the brain can mature from an organ of overwhelmingly short-range connections into one with many long-distance links, as Bradley Schlaggar and his colleagues at Washington University, in St Louis, have found.

Dr Schlaggar likes to create diagrams of brain function using a technique called graph theory that is used, among other things, to analyse demand on power grids and the structure of the Internet. He asks volunteers to lie in brain scanners and to think about whatever they wish. Then he tries to identify which parts of the brain are simultaneously active—or almost so. Where activity exceeds certain statistical thresholds, he plots a line between those bits of the brain on his diagrams.

Networking skills

This approach has led Dr Schlaggar to suggest why it is that adults can better resist impulses that derail long-term goals in children. His work is based on an idea by his colleague Steven Petersen, who recently developed the hypothesis that two networks, rather than two areas of the brain (as the mainstream theory has it), keep the adult mind concentrated on long-term achievement.

Dr Petersen and his colleagues identified 39 regions of the brain that were active when university students applied themselves to ten different tasks, each with varying levels of surprise built in. Whether the students were listening to repetitive sounds and trying to predict when the next tone would come, or pushing the correct button if pairs of words were matched or mismatched in their meanings, some consistent synchronisation emerged. Seven of the 39 regions looked busy when the brain was pursuing a

successful strategy and maintaining a consistent effort. Eleven other parts chipped in when that strategy slipped up and some innovation was needed for the student to complete the task. Dr Petersen postulated that the first seven regions form one network, which he calls the “cingulo-opercular network”, and the second 11 form another, the “frontoparietal network”.

Dr Schlaggar next wondered how the connections within these two networks might develop. So he turned to a second group, made up of children and teenagers, and asked them to think about whatever they liked while he scanned the blood flow inside the same 39 regions of their brains and calculated which parts were acting in unison.

What he found came as a shock. In the 49 children, aged seven to nine, the two networks were always bound into a single web; in the 43 adolescents, some of those connections had been undone; and in his 47 adult volunteers, aged over 21, the brain regions fired as two distinct networks. Moreover, the web of activity inside the children's heads depicted the cingulo-opercular (sustaining) network as being clamped inside the frontoparietal (rapidly adapting) one, suggesting why it is that youngsters grab one biscuit now rather than wait for two later. Both studies were published recently in the *Proceedings of the National Academy of Sciences*.

But why are children no good at recalling the context in which they learn facts when they retain those facts fairly well? This question was fodder for an experiment by Noa Ofen, of the Massachusetts Institute of Technology, and her colleagues, described in this week's online edition of *Nature Neuroscience*. Like Dr Schlaggar, Dr Ofen measured the blood flow in the brains of young people, this time aged eight to 24. Rather than letting their minds wander, though, she asked her volunteers to try to remember photographs of 250 scenes. Some were of kitchens or halls, others showed landscapes from her holidays in America and Israel.

When they came out of the scanner, Dr Ofen then tested her volunteers on how well they could recall the pictures. Mixing those images with photographs that they had not previously seen, she asked whether each one was new or familiar and, if the latter, whether the volunteers could remember something about the context in which it had appeared. Age, she found, did not help people recognise her snaps correctly. However, it did steadily enrich the details they could add about the experience of forming the memory.

The scans enabled Dr Ofen to link her findings to brain development. She noticed that, for all her volunteers, a part of the brain involved in forming memories—the medial temporal lobe—was flushed with blood whenever an image appeared in the scanner. A second region called the lateral prefrontal cortex was also active in her older volunteers, and was most active in those aged over 18 during the formation of those memories whose context they best recalled. She thus suspects that this could help to explain how fuller-bodied memories form as people grow old.

And to link her findings with the pruning of grey matter and the augmentation of white, Dr Ofen counted pixels of the two types of matter in two particularly important parts of that brain region. Richer recollections indeed came with the whitening of older age.

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Medicine

Skeleton keys

Aug 9th 2007
From The Economist print edition

How the body puts flesh on its bones depends on the bones themselves

ANATOMY used to be a straightforward business. The body was divided up neatly into organs and systems that each had well-defined tasks. Indeed, for the past 150 years “Gray's Anatomy”—the 1858 textbook that defines the genre—has dissected the body along these thematic lines: nervous, circulatory, digestive and so on.

But the lines are becoming increasingly blurred. Gerard Karsenty of Columbia University and his colleagues report another such smudging in *Cell* this week. They have found that people's bones do much more than just provide scaffolding for their floppy innards. They have caught the skeleton behaving as part of the endocrine system, the scheme by which the body uses hormones to signal its needs.

It has long been known that the human skeleton constantly constructs and destroys cells, according to the stresses that its bones experience. Some cells produced in bone, called osteoblasts, build bone where it is needed. Another set of cells, osteoclasts, destroy it where it is deemed no longer necessary.

The researchers decided to examine the role of osteocalcin, a protein produced by osteoblasts. To do so, they used some mice that had been bred to lack the gene that instructs the body to make osteocalcin. The rodents were rather rotund, because osteocalcin helps regulate the cells that produce insulin in the pancreas and release it into the bloodstream. Insulin, in turn, controls the levels of sugar in the bloodstream by directing how much of it is taken up by the liver. Mice that produced no osteocalcin lacked this hormonal weight-control mechanism.

Moreover osteocalcin also sends signals to fat cells directly, causing them to release another hormone called adiponectin that makes the body more sensitive to the effects of insulin. This dual control on how the body deals with blood sugar is ultimately what determines weight gain and whether or not fat is burned.

Because osteocalcin is produced only by osteoblasts yet acts on cells far away in the pancreas, the researchers concluded that bone is part of the endocrine system, and that it may hold a key to both obesity and diabetes. Indeed, when Dr Karsenty fed his mice traces of osteocalcin, their blood sugar levels dropped and their insulin production increased. The researchers hope that the effects will be the same in people. The team is trying to find this out, with a view to developing a treatment for those with diabetes.

More secrets may be revealed by research into the skeleton's more acknowledged role of scaffolding. The osteoblasts are the foremen of bone construction, and they appear to respond to the flow of fluid in the tiny channels within bone. When bones have to help lift a weight, the fluid gets sloshed about, leading to the proliferation of osteoblasts in the areas under the most stress. But just how the bones sense this flow of fluid has been an open question, at least until now.

Christopher Jacobs, of Stanford University, and his colleagues, reporting last week in the *Proceedings of the National Academy of Sciences*, have identified the sensors as hair-like protrusions called primary cilia. These are found on the surface of many of the body's cells, and sway to and fro in moving fluid. When they were removed, Dr Jacobs and his colleagues found that no osteoblasts grew nearby. The finding could eventually prove useful in the treatment of osteoporosis, which is caused by overactive osteoclasts and underactive osteoblasts.

Three years ago “Gray's Anatomy” was reorganised according to the regions of the body rather than the functions of the systems. That bones continue to blur the boundaries of functional anatomy means that the classical textbook may yet see further revisions.

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Astrophysics

Hitch-hiking to the moon

Aug 9th 2007
From The Economist print edition

Plans to salvage some science from America's lunar return

Get article background

LAUNCHING people into space may make headlines but it does little useful science. So when George Bush redirected America's space agency, NASA, away from scientific research and towards a manned return to the moon in 2004, many scientists were disappointed. Now the agency has finally offered some small morsels of comfort in the form of four projects that could accompany efforts for a lunar return.

The most exciting of these is the plan for a radio telescope that could be placed on the far side of the moon. Such a device would look back at the early universe to the time when large-scale structures such as galaxies and stars formed. A lunar-based radio telescope would be able to detect long wavelengths that cannot be sensed on Earth because they are absorbed by the outermost layers of the planet's atmosphere. Moreover by pointing the telescope away from the din of shorter-wavelength radio waves that are used for communication on Earth, astrophysicists would be able to see the early universe in unprecedented detail.

Finding alien life might also be possible with such a telescope. It would be able to map the magnetic fields of stars and exoplanets (planets that circle stars outside the solar system). It is the magnetic field of the Earth that protects its inhabitants from being bombarded by high-energy particles from space that would otherwise leave the planet sterile. Detecting a magnetic field surrounding an Earth-like exoplanet would prove a promising sign for finding extraterrestrial life.

The proposal, led by Joseph Lazio, of the Naval Research Laboratory in Washington, DC, is to create an array of three arms arranged in a Y-shape, each of which would be 500 metres long and contain 16 antennae. Each arm would be made of a plastic film that could be rolled out onto the surface of the moon, either by robots or by astronauts.

A second project, headed by Michael Collier, of the NASA Goddard Space Flight Centre, would examine how the solar wind—a stream of charged particles ejected from the sun—interacts with the tenuous lunar atmosphere close to the moon's surface. Such bombardment produces low-energy X-rays that would be detected on the surface of the moon.

The third and fourth projects are similar both to each other and to earlier ventures dropped on the moon by the *Apollo* and the Soviet *Luna* missions in the late 1960s and 1970s. Some 35 years on, reflectors placed on the lunar surface are still used by scientists interested in geophysics and geodesy (for example, how the moon's gravitational field shifts over time). Most of the reflectors are clustered close to the lunar equator. The proposals, led by Stephen Merkowitz, also of NASA's Goddard Space Flight Centre, and Douglas Currie, of the University of Maryland, are to sprinkle some more sophisticated versions over more of the moon's surface.

Such efforts may attract little attention compared with the launch of the space shuttle *Endeavour* this week. Nevertheless, when NASA argues that putting people into space inspires young people to study science, it is precisely these endeavours that it wishes to encourage.

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Evolutionary biology

Tit for tat

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From The Economist print edition

Abandoning offspring in search of new sexual conquests works—at least, for tits

THE rules of sexual mores, for people at least, tend to have the male of the species seeking multiple mates with whom to father as many children as possible, while the female is burdened with raising the brood. In some animals, though, the roles are reversed. In others child care is divided equally. Now a team of ornithologists has discovered a species of bird in which both males and females abandon their offspring, a strategy that, perversely, increases the number of chicks they have overall.

The researchers, led by Istvan Szentirmai of Eotvos University in Budapest, studied the behaviour of a small bird called the European penduline tit or *Remiz pendulinus*. These birds are noted for the elaborate covered nests—which hang like bags from the branches of trees—that the males build to attract females. Investment in establishing a family is thus shared between the males, who provide the accommodation, and females, who supply the eggs.

After eggs have been laid, it is usual for either the male or the female penduline tit to leave their partner to raise the chicks. Between 50% and 70% of the time, it is the female who nurtures and provides for the brood but the male assumes this role in between 5% and 20% of nests. Curiously, though, in between 30% and 40% of cases both parents desert the clutch. Dr Szentirmai and his colleagues decided to discover exactly what was going on.

The ornithologists studied a small colony that was living close to the village of Feherto in southern Hungary, an area of fishponds surrounded by willow and poplar trees. They examined the behaviour of 78 males and 64 females. Some 240 nests were built during the breeding season but complete data were available from only 119 of these. The researchers published their work in the current issue of the *Journal of Evolutionary Biology*.

They found that, over the course of the breeding season, deserting the nest once eggs had been laid boosted the number of descendants produced by the bird that fled. Whether male or female, the more often a bird deserted its clutches, the more mates it had and the more eggs were laid. Indeed, both males and females can mate and lay eggs with up to seven different partners in one season. Moreover the birds frequently varied their attitudes to child care between clutches, overall nurturing twice as many as they abandoned, so most of the eggs did hatch live chicks. Abandoning a clutch in search of new sexual conquests is thus a penduline tit's way of maximising reproductive success.

The researchers reckon that the penduline tit is the only known bird species in which both males and females use the same strategy to produce more chicks. For them, fleeing the nest boosts the brood.

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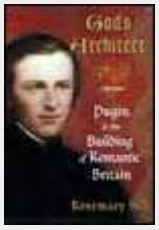
Pugin

Gothic's moral superiority

Aug 9th 2007
From The Economist print edition

A marvellous biography of the architect who built glorious cathedrals—and filled Britain with buildings that vaguely resembled medieval monasteries

God's Architect: Pugin and the Building of Romantic Britain
By Rosemary Hill



Allen Lane; 416 pages; £30

Buy it at Amazon.co.uk

The Guardian

ONE of Augustus Pugin's many jobs in his teenage years was to scurry around the rafters at Covent Garden, pulling on ropes to produce the extravagant illusions that the theatre-goers below were so fond of. It was dangerous work, high up in the dark and with heavy flats moving at high speed. There were dangers after the show was over too. In early 19th-century London, prostitutes used the empty boxes for business and the air of licence that came with the theatre appears to have got to anyone who hung around it.

This was not the place for the pampered son of a French artist, whose hazy origins hinted at aristocracy and the guillotine and a well-born mother whose income never quite matched her status. Pugin was headstrong, though, and his parents were too delighted with their son to ban him from the opera house. The attic of their Bloomsbury house was converted into a model theatre, complete with special effects, where Pugin could play at producing dramas in light and shade.

The first three decades of his life were lived at a pace that makes other prodigies look like slouches. He drew his first commission for King George IV, a design for a gothic sideboard for Windsor castle, at the age of 15. While still a teenager, he painted architectural theatre sets and assisted his father in the production of architectural illustrations. With the money he got, he decided to buy a house. His father

vetoed this idea, so Pugin bought a boat which he sailed up and down the Thames. By 20 he was married and a father.

Then came the deaths. Anne, Pugin's wife, died shortly after childbirth. A year later his doting parents, whose support had freed him, were dead too. His inheritances were enough money to build his own house on a plot of land near Salisbury and, more to the point, a gothic imagination that peopled his dreams with ghosts and sleepwalkers, and his waking with strainer arches and coloured glass.

Despite Pugin's brilliance, this was not an obvious recipe for success. Happily, though, his adulthood coincided with changes in 19th-century Britain that made his peculiar talents fashionable. The flouncy Regency era, symbolised by John Nash's Brighton pavilion (where, Rosemary Hill writes, “the Prince and his guests sat down, in a building that looked like a giant pudding, to enjoy puddings that looked like little buildings”), was passing away, to be replaced by a more purposeful early Victorian age. The landscape was changing fast too, as people moved from the land to the squalor of the cities. There were many critics who objected to the pace and results of industrialisation and thus were receptive to the feelings of romance, piety and nostalgia that the gothic style produced in its admirers.

Pugin built and built: cathedrals, churches, schools, stations, there was no limit to it. He backed his style with a polemical assault on his architectural foes. To those who thought his gothicism backward, he pointed out that classical architecture was not only older but more foreign than his beloved gothic. Gothic also had a moral claim to superiority. This was not just because it was in vogue before the Reformation, which Pugin, who converted to Catholicism, identified as the beginning of the end. Gothic also invoked the spirit of the medieval monastery where a softer charity had prevailed, unlike the kind in those ghastly new workhouses.

Some of the arguments Pugin made in favour of purity of style and against frippery would be turned on him later by the pioneers of modern architecture, who thought the gothic revival looked ridiculous. His ideas were also taken up by John Ruskin, and used against him. But the decline of Pugin's reputation was well under way during his own lifetime. Being “architect to one grate or one fireplace is worse than keeping a fish stall,” he complained when commissions for buildings dried up, to be replaced by bits of interior design.

Pugin's career ended at the age of 40, when he lost his mind. He was admitted to Bethlem hospital in Southwark, opposite one of his greatest buildings, St George's cathedral, taken home and died within the year. In this excellent book, the author suggests that Pugin had caught syphilis when he was a teenager working in the theatre where he first fell for the light, shade and drama of architecture.

God's Architect: Pugin and the Building of Romantic Britain.
By Rosemary Hill.
Allen Lane; 416 pages; £30

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Communism and Nazism

Compare and contrast

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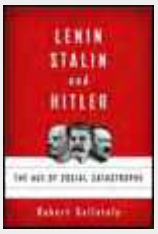
From The Economist print edition

IN THEIR different ways they were as bad as each other, the three monsters of 20th-century Europe. That is an oddly controversial statement. Hitler is almost universally vilified; Lenin remains entombed on Red Square as Russia's most distinguished corpse; and modern Russia is looking more kindly on Stalin's memory.

Robert Gellately elegantly scrutinises their differences and highlights their similarities. He places all three men in the context of a Europe shattered by the first world war. “Before 1914 they were marginal figures,” he writes, without “the slightest hope of entering political life.” The whirlwind of destruction that started in 1914 turned their fantasies of racial purity and class dictatorship into reality, killing people on a scale unknown in human history.

Anyone who still believes in the myth—assiduously propagated by the Soviet Union and its admirers—of the “good Lenin” will find the book uncomfortable reading. The author outlines with exemplary clarity Lenin's cruelty, his illegal and brutal seizure of power, his glee in ordering executions, the institution of mass terror as a means of political control and the construction of the first camps in what later became the gulag. “Far from perverting or undermining Lenin's legacy, as is sometimes assumed, Stalin was Lenin's logical heir,” he writes icily.

Lenin, Stalin, and Hitler: The Age of Social Catastrophe
By Robert Gellately



Knopf; 720 pages; $35. To be published in Britain by Jonathan Cape in September.

Buy it at
Amazon.com
Amazon.co.uk

Mr Gellately busts another myth too: that Hitler seized power by fear and force. The combination of anti-Jewish and anti-Bolshevik rhetoric played well with the German public. People felt humiliated by defeat and impoverished by recession, and Hitler blamed “the Jews” for both.

Hitler looked on Soviet methods with contempt. His model was what Mr Gellately calls “consensus dictatorship”: cautious, sounding out public opinion and changing course when necessary. Unlike Stalin, Hitler did not make a habit of murdering his closest allies. The Nazi party never experienced the ritual purges that were a habitual feature of Soviet Communist Party life under Stalin. Hitler's adversaries were so demoralised by the seeming success of his regime that few offered systematic resistance. It was only as defeat loomed in the last months of the war that ordinary Germans had a taste of the official paranoia that had been their Soviet counterparts' daily fare for 25 years.

Lucid prose and vivid examples make the book admirably accessible to non-specialists. But it also engages expertly in one of the most closely fought historiographical battles of past decades, the *Historikerstreit* (to give it its German name). Was the bacillus of totalitarianism that infected Germany first bred in Russia? Some German historians, notably Ernst Nolte, have argued that Hitler's crimes were both a distorted copy of atrocities already committed under communism and to some extent a defensive reaction to them. To caricature the argument: Germany declared war on Jews because Jews (at least communist ones) had declared war on Germany.

Mr Gellately has no time for Mr Nolte, who he says is guilty of an “astonishing and reprehensible replication of Nazi rhetoric”. Just because many communists were Jews does not mean that there was anything remotely rational in Hitler's constant conflation of “Jewish-Bolshevism”. Nazi anti-Semitism, he insists, was “rooted in German nationalism.”

The argument about the origins of Nazism will run and run. But there is little danger of Germany rehabilitating Hitler, even in the driest and most academic corners of historical theory. In Russia, by contrast, Stalin's memory is being burnished. A new guide for history teachers describes Stalin as the Soviet Union's “most successful leader”; it admits that “political repression” took place, but says it “was used to mobilise not only rank-and-file citizens but also the ruling elite.” President Vladimir Putin,

welcoming this guide, compared Stalin's Great Terror of 1937 with the allied bombing of Hiroshima. It would be interesting to hear Mr Putin's tame historians debate the Stalin era with Mr Gellately.

Mr Gellately sets a high standard for anyone writing about comparative dictatorship. But perhaps some future scholar, matching this author's knowledge of German and Soviet history but possessing equal mastery of China's communist decades, could write a more complete account of 20th-century horrors, including that missing monster, Mao Zedong.

Lenin, Stalin, and Hitler: The Age of Social Catastrophe.
By Robert Gellately.
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Religion

Rules of the game

Aug 9th 2007
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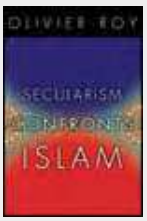
Get article background

Secularism Confronts Islam
By Olivier Roy. Translated by George Holoch



Columbia University Press; 128 pages; $24.50 and £16

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IT IS a risky business nowadays to engage in debate about secularism; doubly so if the subject is French-style secularism (*laicité*) and its confrontation with Islam. As a respected French scholar of the modern Muslim world, Olivier Roy has clearly grown tired of the uninformed polemics of those he wryly dubs the "Islamologists of court, academy or cocktail party". In a work of sustained deconstruction, he takes apart the myths, clichés and prejudices which characterise the current conversation about Islam.

His central contention is that "[the] problem is not Islam but religion or, rather, the contemporary forms of the revival of religion." For the past 20 years or so, the notion that religion should be a purely private affair has been challenged by a new breed of charismatic (often born-again) Christians, Jews, Muslims and others. The new believers are often individualistic, rejecting conformity with either orthodox theology or institutionalised religion. The secular European state, where mainstream religion is in decline, is uncomfortable with this new, assertive and unconventional religiosity.

But Islam has been singled out, partly because of its terrorist fringe. Mr Roy argues that the "Islam" depicted as incompatible with (indeed threatening to) modern Western secular society is a one-dimensional construct wholly at odds with the diversity of life experienced by real flesh-and-blood Muslims, including those living in the West. The defenders of *laicité*, in their alarm at a largely mythical Islam, sense danger at every bus stop.

The wearing of the veil (seen, in the face of the facts, as involuntary) becomes an emblem of a deeply-laid plan of Islamic subversion. All arranged marriages are seen as forced marriages and therefore repressive. The ultimate aim of the well-known Muslim intellectual, Tariq Ramadan, is deemed to be to turn France into an Islamic state. The periodic riots in the Paris *banlieues* are seen as signs of Islamic revolt rather than social protest.

Mr Roy rejects all of these contentions and, along the way, has some fun at the expense of those who have created an Islamic exception. Why attack only Islam as discriminatory? Should we not stigmatise the Catholic Church for not allowing women to be priests? Why not ask Jews to give up the notion of the "chosen people"? More seriously, he suggests it might be honest, though hardly honourable, to admit that Islam is singled out because it is the religion of immigrants and because it is associated, in entirely negative ways, with the Middle East.

In truth, conservative Muslims view sex and family in essentially the same way as conservative Christians and Jews. Mr Roy argues that in all cases the state's attitude should be the same—to distinguish between moral values and legal norms. Those who regard abortion or gay sex as a crime are not required to renounce their views, only to respect the law (and not, for example, assault gays or set fire to abortion clinics). You can believe what you want provided you obey the rules of the game.

The relevance of all this goes well beyond France. Many in Europe, believing that multiculturalism in Britain and the Netherlands has failed, are wondering whether the stricter French were right after all. Olivier Roy's cogent little book may give them pause.

Secularism Confronts Islam.
By Olivier Roy. Translated by George Holoch.
Columbia University Press; 128 pages; $24.50 and £16

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New poetry

Kestrels on the wind's edge

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THE voices of poets sometimes seem too soft and small to be heard these days. They drown easily in a cataract of prose. But good poetry, against appearances, is resilient and sharp. And its task, as Peter Abbs understands it, is to “break, blow, burn and make us new”. His latest collection, distilled from seven previous volumes as well as more recent work, displays Mr Abbs as the brave and considerable poet he is: a seeker of the truth behind things, a metaphysician, and perhaps above all an alchemist, with “burnt fingers, charred skin, cracked hands”.

The Flowering of Flint: Selected Poems
By Peter Abbs

Salt Publishing; 172 pages; £14.99

Buy it at Amazon.co.uk

Hands have great importance for him. Like Seamus Heaney, whose work sometimes flavours his, his background was rural, Catholic and poor. Later he became a professor of creative writing at Sussex University and the poetry editor of *Resurgence* magazine; but his memories are often of hands rubbing the earth or sowing seed in a north Norfolk landscape that is deeply tactile. The sea of that coast taught him “the imperative of poetry”, where school never could:

> We put phrases in coffins and buried them neatly.
> Where were the words
> turned into kestrels on the wind's edge?
> Where were the verbs
> That flowered, dark cones of lilac at the window ledge
> Or petalled the grass
> Or scattered sharp hail against the hard glass?
> The windows were shut.

That reference to kestrels recalls Gerard Manley Hopkins, a favourite influence. Catholicism gave Mr Abbs his restless searching and sense of the sacramental. It accounts, too, for the way Christ inhabits the landscape, in the “bent bracken” bleeding profusely, the white river “nailed to its own bed” and the frosted lawn “like an altar cloth”. But Mr Abbs also relishes the thought that God depends on the poet.

> Where, God, will you be when I am dead?
> I am your listening ears; I am your glancing eyes.
> I am your tongue through which you taste your earth...
> What will you do without your scribbling messenger?
> Will you continue blind and alone?

Mr Abbs writes beautifully and incisively of what it means to be a poet: “this dizzy spinning/Of myself” to make from his own unspooling entrails “fragile geometries” that “shimmer over the abyss”. In a powerful sequence of poems on Nietzsche's madness, he delights in Nietzsche's word *Seiltänzer*, rope dancer, to describe what poets have to do:

> He lives well who lives lightly,
> hoards nothing,
> lets go the air he breathes—
> to draw in more.

One sequence of poems begins with an epigram from Hegel: “Spirit gains its truth only by finding itself in absolute dismemberment.” Mr Abbs is aware that he is far away from that point. But he courageously goes as close as he can, notably in the poems in which he records the long, harrowing deaths of his parents and the dreams that followed. Yet he is never conclusively a dark poet. Light gleams constantly through rafters, chinks, ruins, chicken-wire windows, a half-open door; the light that redeems, as poetry

does.

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By Peter Abbs.
Salt Publishing; 172 pages; $26.95 and £14.99

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New play

The muddiness of right and wrong

Aug 9th 2007
From The Economist print edition

An Israeli play about Palestinians staged in New York

“THIS is not meant to be a provocation,” explained Ilan Hatsor, an Israeli playwright. He was addressing a rapt audience after a performance of his play “Masked”, which opened at the DR2 Theatre off-Broadway in New York last week. A powerful tragedy set during the first *intifada* (which dragged on from 1987 to 1993), it is about three Palestinian brothers who turn on each other—reluctantly, brutally—under the stress of Israeli occupation.

Given the subject, one might expect howling accusations of anti-Israeli bias (like those that met last year's brief New York staging of “My Name is Rachel Corrie”). But Mr Hatsor, who wrote the play in 1990, has earned praise from both Jews and Palestinians for his deft treatment (the play has won several awards in Israel and is being performed in Arabic in Jaffa). “Theatre is not a place for political statements,” he said. “It is a place for human beings and their conflicts and feelings.” And this is very good theatre.

Set in a windowless, bloodstained West Bank butcher's shop, the play begins disorientingly with choppy dialogue between two brothers. “What'll they do to him?” young Khalid (Sanjit De Silva) asks his militant older brother, Na'im (Arian Moayed). They are discussing Daoud (Daoud Heidami), the eldest brother, who is suspected of being an informer for the Israelis. If the “leadership” confirms Daoud's treachery, he will be killed. Na'im has come home to interrogate Daoud himself. The entire play, which lasts 85 minutes without an interval, unfolds with the three brothers trading affection and abuse in the cloistered, grey space of the room.

Ami Dayan, the director, felt a renewed urgency to stage “Masked” after Hamas's electoral victory over Fatah in January 2006. For him the play embodies the worst aspects of Palestinian factional fighting. But its real strength may be in the way its nuanced characters muddy notions of right and wrong, toying with audience sympathies. Na'im, for example, initially appears thuggish, but his militant conviction ends up seeming honourable.

“So, is there any way to resolve the conflict?” asked one guileless chap during the discussion after the play (to the morbid laughter of other members of the audience). The playwright admitted that he is even less hopeful now than he was when he wrote it. But compassion for, and dialogue with, both sides remains essential. When Khalid, the play's lone peacemaker, pleads with his brothers: “I want a solution. From the two of you. Without blood,” we too ache for this to happen.

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Locarno film festival

Outdoor movies

Aug 9th 2007
From The Economist print edition

A film festival that avoids being yet another circus of celebrities

FILM festivals, especially the big ones—Cannes, Berlin, Toronto—are rarely subtle. But Locarno, now in its 60th year and relatively modest in scale, steals a march with a pleasing piece of equipment. In the town's central square, the Piazza Grande, stands a giant screen with seating for 8,000. The treat for viewers was that, for the first week and a half of August, two films a night could be seen in the open air.

With the Alpine foothills that surround Lake Maggiore glowing in the dusk, there was no denying the sense of wellbeing this induced. If it rained, people could either stay or go to a 3,200-seat hall nearby called the Fevi (some, of course, just give up). In the piazza, over the first weekend, film-goers watched crowd-pleasers such as Paul Greengrass's "The Bourne Ultimatum", starring Matt Damon, the last in a Hollywood trilogy begun in 2002. They saw Robert Rodriguez's gore-fest, "Planet Terror", also from Hollywood, in which cannibalistic zombies are mown down by a one-legged Rose McGowan, her prosthetic machine-gun doing all the mashing.

Gentler fare on the piazza came in the form of Frank Oz's very British farce, "Death at a Funeral", and, from France, Samuel Benchetrit's "J'ai toujours rêvé d'être un gangster", a light, rueful comedy in black and white, which introduced Locarno to a charismatic beauty, Anna Mouglalis. Festivals need stars as well as spectacle. So from the Piazza Grande's stage, Mr Benchetrit announced that he and his leading lady now had a daughter. And before "Planet Terror", Mr Rodriguez, in black cowboy boots and Stetson, greeted the audience in Spanish while Ms McGowan, safely two-legged again in diaphanous white, purred her love of Locarno's ice-cream in Italian.

The biggest name pulled in this year was Sir Anthony Hopkins. The Welsh actor, now based in California, has just directed his first major feature, "Slipstream". This was part of the international competition, which has always favoured difficult, edgy films (the Piazza Grande films are supposed to be for entertainment alone). But, unless the jury is deranged or under the influence—not impossible: Locarno's parties flow generously with Swiss and Italian wines—"Slipstream" is unlikely to win the Golden Leopard.

The film tells the story of a Hollywood screenwriter, played by Sir Anthony, whose characters come to life and do weird things to him. But it makes little narrative sense, tripping up on its own convolutions and fatally lacking in tension. Still, the actor, who was received rapturously at the Fevi, the competition centre, undoubtedly deserves credit for versatility: he not only directs, writes and stars but has also composed the rather evocative sound-track.

"I have no formal [musical] training," Sir Anthony said privately after the screening, "but I work first on a piano and, these days, everything thereafter can be done on a computer." He praised Locarno: "Cannes and Berlin are a bit of a circus. It's my first time in Locarno, which is a great place to air a film in which I've allowed myself to do exactly what I want."

So he has, though with mixed results. More disciplined work in competition for the Golden Leopard includes "La maison jaune", a family tragedy directed by an Algerian, Amor Hakkar, and "Contre toute espérance" ("Summit Circle" in English), a haunting, carefully poised film about a woman caring for her stroke-damaged husband, directed by a Canadian, Bernard Émond. Then there is Jim Threapleton's unflinching examination of contemporary torture in a wholly British film, "Extraordinary Rendition", telling the story of a young Muslim abducted in London and accused of being a terrorist.

This would not have been out of place in the festival's most adventurous section, Open Doors, a forum for films and film-makers—invited for discussion and project-pitching—from different regions of the world. This year the Middle East was featured, with producers and directors coming from Jordan, Syria, Lebanon, Egypt, Palestine and Israel.

Open Doors is run by Vincenzo Bugno, who acknowledges that this is a fiery political cocktail but insists that cinema be the central concern: “There is a very rich seam of cinema in this region,” he said. “Our policy is to approach any bit of the world without clichés—especially important with the Middle East.” Indeed.

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Tommy Makem

Aug 9th 2007
From The Economist print edition

Tommy Makem, an Irish folk-singer, died on August 1st, aged 74

Landov

IT ALL began in the kitchen of a house in Keady, County Armagh, in Northern Ireland, where Tommy Makem's mother Sarah, as she stirred a pan on the hob or filled the kettle, would sing of morning dew and magpies' nests, Barney Mavourneen and Mary of Kilmore, ships and red roses:

> Red is the rose that in yonder garden grows
> Fair is the lily of the valley Clear is the water that flows from the Boyne
> But my love is fairer than any.

Mrs Green from along the street would join in too, until the house became a regular ceilidh at times and collectors would come, even from America, to write the songs down. Tommy said he could sing before he could speak; and not long after he could play piccolo, fiddle, tin whistle and the five-string banjo. He would stand up in the church hall, no taller than a chair, and sing “The Little Beggarman”:

> I am a little beggarman, a begging I have been
> For three score years in this little isle of green.

Music and tales filled not only his home but the rolling fields and hills of South Armagh itself. The heart of Ireland seemed to beat there beneath Slieve Gullion, the mystical mountain where the hero Cuchullain had learned his warrior skills and where the hunter Finn MacCumhail, bewitched and curious, had tracked a white doe to the summit. Tommy Makem picked up those legends too and, in 1955, took them to America, together with his bagpipes and a suitcase patched up with tape.

In an Aran sweater

He meant to work in a cotton mill and do a bit of acting, but one St Patrick's night he was paid $30 for singing two songs in a club: “and I thought, by God, this is the land all right. Gold growing in the streets.” By 1958 he had teamed up with his friend Liam Clancy and Liam's brothers Paddy and Tom, who had come from Tipperary to America before him, and the gold continued to accrue. The Clancy Brothers and Tommy Makem, all kitted out in Aran sweaters knitted by Mrs Clancy, triumphantly rode the wave of a folk revival that was turning Pete Seeger and Woody Guthrie into stars. Adapting to the new world, they added tin whistle and banjo to the old songs and quickened the pace, because, as Tommy said, “The heartbeat of America is so much faster than the old country.” They did “The Morning Show” and “The Tonight Show”, Ed Sullivan and Carnegie Hall, landed a $100,000 contract with Columbia and ended up singing “We Want no Irish Here” in front of Jack Kennedy at the White House, while Kennedy flashed his white teeth and rocked with laughter.

Tommy Makem was always the key man, with a baritone sweet as buttermilk or sharp as salt, nipping effortlessly over his “hi the dithery idle lum, dithery oodle idle loos” and his “roo run rye, fa the diddle dye, hey the O the diddle derry Os”. And for a lifelong teetotaller no man had more feeling when he sang of hoppy beer or dark-frothing porter or devilish golden whiskey, or almost anything at all served up in a jug in a bar:

> When I am in my grave and dead
> And all my sorrows are past and fled
> Transport me then into a fish
> And let me swim in a jug of this.

The songs he wrote himself he dismissed as “garbage altogether”, never to be compared to the old words and melodies he wanted to preserve in live performance. But a few he was proud of, and none more so than “Four Green Fields”, in which “a fine old woman”—Ireland—sang of her fourth field, Ulster, that was still “in bondage/ In strangers' hands, that tried to take it from me”. In America his audiences, largely third-generation Irish of the diaspora, would weep and sing along until, according to the *New York Times* man, they were “ready to go out and die for Ireland”.

All told, Tommy Makem's choice of songs was fervently nationalistic: children's rhymes about “King Billy”, or rebel songs such as “The Wind that Shakes the Barley”, in which the hero's sweetheart is killed, as they caress in a glen, by a British bullet. And most stirring of all, in a voice with an edge like a knife, he would sing “The Patriot Game”:

> Come all you young rebels, and list while I sing,
> For the love of one's country is a terrible thing.
> It banishes fear with the speed of a flame,
> And it makes us all part of the patriot game.

Bob Dylan adapted this for his great anti-war song “With God on Our Side”. But Tommy Makem tried always to separate his love of country from the horrors of sectarianism. As Northern Ireland slid into the Troubles after 1969, he kept away from politics—a task made somewhat easier by staying in America, where he went on singing to the end of his days. In the dark low-ceilinged bar he bought in New York in the early 1980s, the rule of the house was tolerance and good fellowship. And the slow dawning of peace in Northern Ireland was celebrated by the founding in 2000 in South Armagh of his International Festival of Song, a deliberate declaration that singing could lead men out of darkness, just as Finn MacCumhail at the top of Slieve Gullion found the doe he was following transformed into a beautiful young woman, who smiled at him.

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Overview

Aug 9th 2007
From The Economist print edition

The **Federal Reserve** decided to keep its benchmark interest rate unchanged at 5.25% on August 7th. America's central bank acknowledged that financial markets had been “volatile” and that the risks to growth had “increased somewhat”, but insisted that its main policy concern was that inflation would “fail to moderate as expected”.

The unemployment rate in **America** rose from 4.5% in June to 4.6% in July. Labour productivity in nonfarm businesses rose at an annualised rate of 1.8% in the second quarter, according to first estimates. The annualised increase in unit labour costs was 2.1%.

The Reserve Bank of **Australia** raised its key interest rate from 6.25% to 6.5%, the highest level since November 1996.

Surprisingly, **South Korea's** central bank raised interest rates for the second month running. The Bank of Korea put rates up by a quarter-point, to 5%. Lending has been growing rapidly and the memory of a credit bubble, which burst in 2004, is still fresh.

In its quarterly *Inflation Report*, **Britain's** central bank forecast that inflation would stabilise close to the 2% target, if market expectations that interest rates would peak at 6% were fulfilled. Britain's industrial production rose by 0.6% in the second quarter.

Germany's trade surplus fell from €17.4 billion ($23.5 billion) in May to €14.9 billion in June, largely because of a surge of imports. **France's** trade deficit narrowed to €3 billion in June from €3.2 billion in May.

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Output, prices and jobs

Aug 9th 2007
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2007†	2008†	latest	latest	year ago	2007†	rate‡, %
United States	+1.8 Q2	+3.4	+2.0	+2.6	+1.4 Jun	+2.7 Jun	+4.3	+2.8	4.6 Jul
Japan	+2.6 Q1	+3.3	+2.6	+2.3	+1.0 Jun	–0.2 Jun	+0.5	nil	3.7 Jun
China	+11.9 Q2	na	+10.5	+9.6	+19.4 Jun	+4.4 Jun	+1.5	+3.0	9.5 2006
Britain	+3.0 Q2	+3.3	+2.8	+2.3	+0.8 Jun	+2.4 Jun**	+2.5	+2.4	5.4 May††
Canada	+2.0 Q1	+3.7	+2.5	+2.7	–0.1 May	+2.2 Jun	+2.4	+2.4	6.1 Jun
Euro area	+3.0 Q1	+2.4	+2.7	+2.3	+2.5 May	+1.8 Jul	+2.4	+2.0	6.9 Jun
Austria	+3.5 Q1	+3.6	+3.0	+2.7	+7.7 May	+2.0 Jun	+1.5	+1.9	4.3 Jun
Belgium	+2.9 Q2	+2.4	+2.7	+2.4	+1.8 May	+1.4 Jul	+1.6	+1.8	10.5 Jun‡‡
France	+1.9 Q1	+2.2	+2.0	+2.2	–0.3 May	+1.2 Jun	+1.9	+1.5	8.0 Jun
Germany	+3.6 Q1	+2.1	+2.8	+2.4	+4.9 Jun	+1.9 Jul	+1.9	+1.9	9.0 Jul
Greece	+4.6 Q1	na	+3.7	+3.2	+0.3 May	+2.5 Jul	+3.8	+2.6	8.4 Apr
Italy	+2.3 Q1	+1.1	+2.0	+1.7	–0.1 Jun	+1.6 Jul	+2.2	+1.9	6.2 Q1
Netherlands	+2.5 Q1	+3.6	+2.8	+2.6	+2.2 May	+1.5 Jul	+1.6	+1.9	4.6 Jun††
Spain	+4.1 Q1	+4.6	+3.7	+2.7	+2.0 Jun	+2.4 Jun	+3.9	+2.7	8.0 Jun
Czech Republic	+6.1 Q1	+6.1	+5.2	+4.0	+7.5 May	+2.3 Jul	+2.9	+2.5	6.4 Jul
Denmark	+2.3 Q1	+2.2	+2.1	+2.0	–4.3 May	+1.4 Jun	+2.1	+1.9	3.5 Jun
Hungary	+2.7 Q1	+2.4	+2.7	+3.0	+8.7 Jun	+8.6 Jun	+2.8	+7.3	7.0 Jun††
Norway	+2.8 Q1	+2.9	+2.7	+2.5	–3.9 May	+0.4 Jun	+2.1	+0.8	2.5 Jun††
Poland	+7.4 Q1	na	+6.3	+5.1	+5.6 Jun	+2.6 Jun	+0.8	+2.1	12.4 Jun‡‡
Russia	+7.9 Q1	na	+6.7	+6.2	+10.9 Jun	+8.8 Jul	+9.6	+7.8	6.7 Jun‡‡
Sweden	+3.6 Q2	+3.9	+3.5	+3.2	+3.6 May	+1.9 Jul	+1.7	+2.1	4.9 Jun‡‡
Switzerland	+2.4 Q1	+3.2	+2.4	+2.1	+7.3 Q1	+0.7 Jul	+1.4	+0.7	2.5 Jul‡‡
Turkey	+6.8 Q1	na	+6.0	+5.2	+1.8 Jun	+6.9 Jul	+11.7	+9.4	11.4 Q1‡‡
Australia	+3.8 Q1	+6.6	+3.6	+3.3	+5.5 Q1	+2.1 Q2	+4.0	+2.3	4.3 Jul
Hong Kong	+5.6 Q1	+2.0	+5.7	+5.0	–1.5 Q1	+1.3 Jun	+2.2	+2.0	4.2 Jun††
India	+9.1 Q1	na	+8.5	+8.0	+11.1 May	+6.6 May	+6.3	+5.9	7.6 2006
Indonesia	+6.0 Q1	na	+6.3	+6.2	+11.8 May	+6.1 Jul	+15.2	+5.8	9.8 Feb
Malaysia	+5.3 Q1	na	+5.9	+5.8	+3.1 May	+1.4 Jun	+3.9	+2.4	3.4 Q1
Pakistan	+6.6 2006§§	na	+6.4	+5.9	+7.1 May	+7.0 Jun	+7.6	+6.3	na
Singapore	+8.2 Q2	+12.8	+6.0	+4.5	–7.4 Jun	+1.3 Jun	+1.4	+0.9	2.4 Q2
South Korea	+4.9 Q2	+7.0	+4.5	+4.7	+7.6 Jun	+2.5 Jul	+2.4	+2.4	3.3 Jun
Taiwan	+4.2 Q1	na	+4.4	+4.6	+7.5 Jun	–0.3 Jul	+0.8	+1.2	3.9 Jun
Thailand	+4.3 Q1	+4.9	+4.2	+4.9	+6.3 May	+1.7 Jul	+4.4	+2.6	1.6 Mar
Argentina	+8.0 Q1	+4.1	+7.5	+5.5	+0.3 Jun	+8.6 Jul	+10.6	+9.3	9.8 Q1‡‡
Brazil	+4.3 Q1	+3.2	+4.3	+3.8	+6.6 Jun	+3.7 Jul	+4.0	+3.5	9.7 Jun‡‡
Chile	+5.8 Q1	na	+5.9	+5.3	+6.7 Jun	+3.8 Jul	+3.8	+3.0	6.9 Jun††††
Colombia	+8.1 Q1	+10.3	+6.4	+5.1	+11.9 May	+5.8 Jul	+4.3	+5.7	11.1 Jun‡‡
Mexico	+2.6 Q1	+0.6	+3.1	+3.5	+1.1 May	+4.0 Jun	+3.2	+3.9	3.3 Jun‡‡
Venezuela	+8.8 Q1	na	+5.9	+4.0	+10.0 Apr	+17.2 Jul	+13.5	+18.1	8.0 Q2‡‡
Egypt	+7.4 Q1	na	+7.0	+7.2	+10.5 2006	+8.5 Jun	+6.4	+8.4	9.0 Q4‡‡
Israel	+5.4 Q1	+6.3	+5.1	+4.5	+6.6 May	–0.7 Jun	+3.5	+0.3	7.7 Q1
Saudi Arabia	+4.3 2006§	na	+4.0	+5.7	na	+3.0 Jun	+1.8	+3.0	na
South Africa	+5.4 Q1	+4.7	+4.8	+5.2	+2.0 Jun	+7.0 Jun	+4.9	+5.8	25.5 Sep‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+9.8 Q1	+9.5	+9.4	+5.8	+6.2 May	+5.8 Jun	+4.3	+5.3	5.2 May
Finland	+5.4 Q1	+3.4	+3.6	+2.6	+0.3 Jun	+2.5 Jun	+1.7	+1.4	6.6 Jun
Iceland	–0.1 Q1	–3.6	+0.8	+1.8	+7.6 2006	+3.8 Jul	+8.4	+4.6	1.0 Jun‡‡
Ireland	+7.5 Q1	+20.1	+4.8	+3.4	–5.6 May	+4.9 Jun	+3.9	+4.5	4.6 Jun
Latvia	+10.7 Q1	na	+9.6	+7.5	+3.4 May	+8.8 Jun	+6.3	+7.9	5.9 May
Lithuania	+8.3 Q1	+6.1	+7.5	+6.7	na	+4.8 Jun	+3.7	+2.2	2.7 Jun
Luxembourg	+6.2 Q1	+6.6	+5.2	+4.3	+1.6 Apr	+2.0 Jun	+3.2	+2.4	4.1 May‡‡
New Zealand	+2.7 Q1	+2.5	+3.9	+3.1	nil Q1	+2.0 Q2	+4.0	+2.4	3.6 Q2
Peru	+8.3 May	na	+7.1	+5.5	+12.3 May	+2.2 Jul	+1.5	+1.2	7.6 Jun‡‡
Philippines	+6.9 Q1	+10.3	+6.0	+5.6	–7.1 May	+2.6 Jul	+6.4	+2.9	7.4 Q2‡‡
Portugal	+2.1 Q1	+3.2	+1.8	+2.1	+0.6 Jun	+2.4 Jun	+3.7	+2.3	8.4 Q1‡‡
Slovakia	+9.0 Q1	na	+8.0	+6.0	+12.0 Jun	+2.5 Jun	+4.6	+2.5	8.3 May
Slovenia	+7.2 Q1	na	+5.6	+4.2	+2.5 May	+3.8 Jul	+1.9	+2.6	7.7 May‡‡

*% change on previous quarter, annual rate. †*The Economist* poll. ‡National definitions. §Economist Intelligence Unit estimate/forecast. **RPI inflation rate 4.4% in Jun. ††Latest three months. ‡‡Not seasonally adjusted. §§Year ending June.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

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The Economist commodity-price index

Aug 9th 2007
From The Economist print edition

The Economist commodity-price index

2000=100

	Jul 31st	Aug 7th*	% change on one month	% change on one year
Dollar index				
All items	204.0	204.3	–0.5	+16.2
Food	172.5	174.7	+1.1	+27.7
Industrials				
All	244.6	242.5	–1.8	+7.2
Nfa†	164.0	163.6	+1.7	+6.6
Metals	288.6	285.6	–2.9	+7.4
Sterling index				
All items	152.2	153.2	–0.3	+9.6
Euro index				
All items	137.8	137.2	–0.7	+8.4
Gold				
$ per oz	664.65	670.75	+1.0	+4.1
West Texas Intermediate				
$ per barrel	78.12	72.30	–0.5	–5.4

*Provisional †Non-food agriculturals.

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The Economist poll of forecasters, August averages

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The Economist poll of forecasters, August averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2007	2008	2007	2008	2007	2008	2007	2008
Australia	3.1/4.1	2.8/3.9	3.6 (3.5)	3.3	2.3	2.8 (2.7)	–5.4	–5.1
Belgium	2.4/2.9	2.1/2.7	2.7 (2.6)	2.4 (2.3)	1.8	1.8 (1.9)	2.2 (2.1)	2.1
Britain	2.6/3.1	2.0/2.8	2.8	2.3 (2.4)	2.4	2.0	–3.2	–3.2 (–3.3)
Canada	2.2/3.0	2.3/2.9	2.5	2.7	2.4 (2.3)	2.3 (2.2)	1.6	1.3
France	1.8/2.5	1.8/2.6	2.0	2.2 (2.1)	1.5	1.8	–1.0 (–1.2)	–1.0 (–1.1)
Germany	2.5/3.0	2.0/2.9	2.8	2.4 (2.3)	1.9	1.6	4.9	5.0
Italy	1.5/2.2	1.4/2.0	2.0 (1.9)	1.7	1.9 (1.8)	1.9 (2.0)	–2.3 (–2.0)	–2.1 (–2.0)
Japan	2.2/2.8	1.9/2.9	2.6	2.3	nil (–0.1)	0.4	4.4 (3.4)	4.4 (4.3)
Netherlands	2.4/3.2	2.2/2.9	2.8 (2.7)	2.6	1.9 (1.8)	1.9	7.7 (7.8)	7.5
Spain	3.5/4.1	2.1/3.2	3.7	2.7 (2.8)	2.7 (2.6)	2.9	–8.8 (–8.6)	–8.4 (–8.3)
Sweden	3.1/4.0	2.9/3.6	3.5	3.2	2.1 (1.8)	2.2 (2.0)	6.8 (6.9)	6.5 (6.6)
Switzerland	2.2/2.6	1.9/2.6	2.4	2.1	0.7	1.2	16.1 (14.4)	15.6 (15.5)
United States	1.8/2.2	2.3/3.3	2.0 (2.1)	2.6 (2.7)	2.8 (2.7)	2.5 (2.4)	–5.8 (–6.0)	–5.6 (–5.9)
Euro area	2.4/2.9	2.1/2.7	2.7	2.3	2.0	1.9	0.1 nil	0.2

Sources: ABN AMRO, BNP Paribas, Citigroup, Decision Economics, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, JPMorgan Chase, Morgan Stanley, Scotiabank, UBS

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Trade, exchange rates, budget balances and interest rates

Aug 9th 2007
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2007†‡	Currency units, per $ Aug 8th	Currency units, per $ year ago	Budget balance % of GDP 2007‡	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−827.1 May	−803.4 Q1	−5.8	–	–	−1.2	5.24	4.86
Japan	+91.4 May	+190.0 May	+4.4	120	115	−2.9	0.66	1.78
China	+229.1 Jun	+249.9 2006	+10.7	7.57	7.98	−0.7	3.19	4.32
Britain	−155.8 Jun	−93.0 Q1	−3.2	0.49	0.52	−2.7	6.09	5.29
Canada	+48.0 May	+18.5 Q1	+1.6	1.05	1.12	0.6	4.61	4.53
Euro area	+15.9 May	−1.0 May	+0.1	0.72	0.78	−0.7	4.35	4.42
Austria	+1.0 May	+13.2 Q1	+3.0	0.72	0.78	−0.8	4.35	4.52
Belgium	+18.2 May	+11.2 Mar	+2.2	0.72	0.78	nil	4.41	4.54
France	−38.0 Jun	−31.7 May	−1.0	0.72	0.78	−2.8	4.35	4.50
Germany	+239.9 Jun	+175.4 May	+4.9	0.72	0.78	0.5	4.35	4.42
Greece	−46.6 Apr	−33.6 May	−8.4	0.72	0.78	−2.4	4.35	4.71
Italy	−21.2 May	−49.8 May	−2.3	0.72	0.78	−2.6	4.35	4.69
Netherlands	+45.3 May	+16.8 Q1	+7.7	0.72	0.78	0.6	4.35	4.49
Spain	−119.6 May	−115.9 Apr	−8.8	0.72	0.78	2.0	4.35	4.52
Czech Republic	+2.9 Jun	−5.3 May	−4.1	20.4	21.8	−4.2	3.24	4.50
Denmark	+5.4 Jun	+5.3 Jun	+2.1	5.39	5.79	3.8	4.55	4.49
Hungary	−2.2 Jun	−6.2 Q1	−5.2	180	209	−6.5	7.61	6.60
Norway	+54.7 Jun	+57.3 Q1	+14.4	5.76	6.16	16.6	5.06	5.03
Poland	−7.5 May	−10.2 May	−2.7	2.73	3.00	−2.4	4.84	5.56
Russia	+128.3 May	+77.7 Q2	+6.8	25.4	26.7	3.0	10.00	6.03
Sweden	+19.5 Jun	+29.8 Q1	+6.8	6.69	7.12	2.4	3.48	4.35
Switzerland	+11.0 Jun	+102.1 Q1	+16.1	1.19	1.22	0.3	2.72	3.07
Turkey	−54.1 Jun	−31.7 Jun	−6.3	1.26	1.45	−2.8	18.64	6.65§
Australia	−10.9 Jun	−43.8 Q1	−5.4	1.16	1.31	1.3	6.64	6.00
Hong Kong	−19.6 Jun	+23.2 Q1	+10.1	7.83	7.78	1.8	4.46	4.42
India	−66.9 Jun	−9.6 Q1	−1.1	40.5	46.5	−3.3	6.46	8.24
Indonesia	+42.1 Jun	+10.3 Q1	+1.9	9,295	9,090	−1.6	8.13	6.79§
Malaysia	+28.9 Jun	+26.0 Q1	+11.0	3.46	3.66	−3.2	3.62	5.50§
Pakistan	−13.4 Jun	−6.8 Q1	−4.6	60.4	60.3	−4.7	9.81	8.31§
Singapore	+35.5 Jun	+38.1 Q1	+25.6	1.51	1.57	0.3	2.63	2.89
South Korea	+19.4 Jul	+5.2 Jun	+1.0	924	959	0.5	5.09	5.33
Taiwan	+12.3 Jul	+28.1 Q1	+6.1	32.9	32.8	−2.0	2.55	2.68
Thailand	+9.3 Jun	+11.1 Jun	+2.3	34.0	37.5	−1.9	3.55	4.18
Argentina	+11.2 Jun	+7.8 Q1	+3.2	3.13	3.07	1.3	13.13	na
Brazil	+45.0 Jul	+15.0 Jun	+0.8	1.88	2.17	−2.4	11.43	6.16§
Chile	+25.5 Jun	+7.1 Q1	+5.2	518	544	6.6	5.52	5.61§
Colombia	−0.9 Apr	−4.1 Q1	−3.2	1,974	2,367	−0.7	8.23	6.34§
Mexico	−11.8 Jun	−5.5 Q1	−0.9	10.9	10.8	0.1	7.19	7.75
Venezuela	+28.2 Q1	+23.8 Q1	+9.8	2,147	2,634	−3.7	11.01	6.55§
Egypt	−14.1 Q1	+3.3 Q1	+1.2	5.64	5.74	−5.6	7.20	5.42§
Israel	−7.8 Jun	+8.1 Q1	+3.5	4.26	4.36	−1.1	4.20	5.52
Saudi Arabia	+148.5 2006	+95.4 2006	+25.8	3.75	3.75	19.4	5.02	na
South Africa	−9.3 Jun	−16.6 Q1	−6.8	7.03	6.73	0.5	10.05	8.50
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	−4.1 May	−3.1 Apr	−16.0	11.3	12.1	1.7	4.76	na
Finland	+12.6 May	+12.6 May	+6.6	0.72	0.78	4.1	4.31	4.50
Iceland	−1.9 Jun	−4.0 Q1	−16.8	63.1	70.5	3.7	14.11	na
Ireland	+34.9 May	−10.6 Q1	−4.9	0.72	0.78	0.9	4.35	4.51
Latvia	−6.0 May	−5.6 May	−22.2	0.50	0.54	nil	6.25	na
Lithuania	−6.3 May	−3.9 May	−12.5	2.50	2.68	−0.5	5.05	na
Luxembourg	−5.5 May	+4.5 Q1	na	0.72	0.78	0.3	4.35	na
New Zealand	−4.2 Jun	−9.1 Q1	−10.7	1.30	1.59	4.8	7.10	6.57
Peru	+8.9 May	+2.7 Q1	+1.9	3.15	3.23	0.4	4.75	na
Philippines	−3.3 May	+5.7 Mar	+5.1	45.2	51.4	−1.1	7.50	na
Portugal	−23.0 Apr	−17.2 Apr	−7.9	0.72	0.78	−3.3	4.35	4.65
Slovakia	−2.0 May	−3.5 Apr	−4.3	24.1	29.0	−2.9	4.15	4.66
Slovenia	−2.3 May	−1.6 May	−2.2	0.72	0.78	−1.1	na	na

*Merchandise trade only. †*The Economist* poll. ‡Economist Intelligence Unit forecast. §Dollar-denominated bonds.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

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Markets

Aug 9th 2007
From The Economist print edition

Markets

	Index Aug 8th	% change on one week	% change on Dec 29th 2006 in local currency	% change on Dec 29th 2006 in $ terms
United States (DJIA)	13,657.9	+2.2	+9.6	+9.6
United States (S&P 500)	1,497.5	+2.2	+5.6	+5.6
United States (NAScomp)	2,613.0	+2.3	+8.2	+8.2
Japan (Nikkei 225)	17,029.3	+0.9	–1.1	–1.5
Japan (Topix)	1,669.0	nil	–0.7	–1.1
China (SSEA)	4,893.6	+8.5	+73.8	+79.1
China (SSEB, $ terms)	315.8	+1.4	+135.6	+142.7
Britain (FTSE 100)	6,393.9	+2.3	+2.8	+7.1
Canada (S&P TSX)	13,758.2	+0.8	+6.6	+18.3
Euro area (FTSE Euro 100)	1,366.5	+2.4	+6.9	+12.0
Euro area (DJ STOXX 50)	4,364.2	+3.0	+5.9	+11.0
Austria (ATX)	4,661.2	+0.9	+4.4	+9.4
Belgium (Bel 20)	4,320.9	+0.2	–1.5	+3.2
France (CAC 40)	5,749.3	+1.7	+3.7	+8.7
Germany (DAX)*	7,605.9	+1.8	+15.3	+20.8
Greece (Athex Comp)	4,836.8	–1.0	+10.1	+15.3
Italy (S&P/MIB)	40,645.0	+3.2	–1.9	+2.8
Netherlands (AEX)	531.0	+1.2	+7.2	+12.3
Spain (Madrid SE)	1,651.2	+2.6	+6.2	+11.3
Czech Republic (PX)	1,808.2	+3.5	+13.8	+16.5
Denmark (OMXCB)	483.2	+2.0	+13.9	+19.6
Hungary (BUX)	28,520.5	–1.2	+14.8	+21.5
Norway (OSEAX)	562.0	+0.1	+11.9	+20.9
Poland (WIG)	61,302.4	–1.6	+21.6	+29.5
Russia (RTS, $ terms)	1,987.3	+2.1	–0.2	+3.4
Sweden (Aff.Gen)	393.0	+1.4	+7.6	+10.0
Switzerland (SMI)	8,964.2	+0.9	+2.0	+4.3
Turkey (ISE)	52,070.6	+1.5	+33.1	+50.2
Australia (All Ord.)	6,124.7	+2.3	+8.5	+18.6
Hong Kong (Hang Seng)	22,536.7	+0.4	+12.9	+12.1
India (BSE)	15,308.0	+2.5	+11.0	+21.3
Indonesia (JSX)	2,262.6	+0.3	+25.3	+21.3
Malaysia (KLSE)	1,307.2	–2.4	+19.2	+21.7
Pakistan (KSE)	13,564.4	–0.9	+35.1	+36.1
Singapore (STI)	3,413.2	–0.5	+14.3	+16.1
South Korea (KOSPI)	1,903.4	+2.5	+32.7	+33.5
Taiwan (TWI)	9,099.5	+2.3	+16.3	+15.2
Thailand (SET)	831.6	–0.2	+22.3	+30.2
Argentina (MERV)	2,158.4	–0.9	+3.3	+1.0
Brazil (BVSP)	55,241.0	+1.9	+24.2	+40.8
Chile (IGPA)	14,658.5	–1.1	+18.5	+21.8
Colombia (IGBC)	11,029.7	+0.7	–1.2	+12.1
Mexico (IPC)	30,661.9	+2.0	+15.9	+14.9
Venezuela (IBC)	40,648.7	–3.7	–22.2	+21.2
Egypt (Hermes)	72,118.9	+0.4	+17.7	+19.2
Israel (TA-100)	1,074.9	–0.1	+16.6	+15.4
Saudi Arabia (Tadawul)	7,715.6	+1.1	–2.7	–2.8
South Africa (JSE AS)	28,209.0	+1.4	+13.2	+13.6
Europe (FTSEurofirst 300)	1,554.4	+1.8	+4.8	+9.8
World, dev'd (MSCI)	1,589.5	+2.1	+7.1	+7.1
Emerging markets (MSCI)	1,093.4	+1.7	+19.8	+19.8
World, all (MSCI)	398.0	+2.1	+8.2	+8.2
World bonds (Citigroup)	676.0	nil	+2.7	+2.7
EMBI+ (JPMorgan)	412.2	+1.5	+1.2	+1.2
Hedge funds (HFRX)	1,318.9	–1.1	+3.4	+3.4
Volatility, US (VIX)	21.5	23.7	11.6	(levels)
CDSs, Eur (iTRAXX)†	43.0	–25.5	+84.3	+93.1
CDSs, N Am (CDX)†	60.2	–20.1	+80.2	+80.2
Carbon trading (EU ETS) €	0.08	–20.0	–98.7	–98.7

*Total return index. †Credit-default swap spreads, basis points. Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CMIE; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS;

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Exchange rates against the dollar

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The dollar has weakened against all other leading currencies this year. The countries whose currencies have gained most are high interest-rate economies, such as Turkey, Brazil and New Zealand, commodity producers, such as Canada, or a mixture of both, such as Australia. The euro's continued climb against the dollar has been inspired by sustained economic growth and the expectation of higher interest rates. America's huge trade deficit and weakening economic growth, as well as fears of dollar sales by Asian central banks, have tainted the dollar in the eyes of investors. Yet some currencies have fared worse. The Indonesian rupiah and the Argentine peso are among the poorest performers.

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